

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

REVIEW OF PRICES FOR COUNTRY ENERGY'S (BROKEN HILL)
WATER
AND SEWERAGE FROM 1 JULY 2010

Tribunal Members

Mr James Cox, Acting Chairman and CEO
Ms Sibylle Krieger

Secretariat

Mr Richard Warner and Mr Colin Reid

Held at The Astra (The Courtyard)
393 Argent Street, Broken Hill

On Wednesday, 18 November 2009 at 9am

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1 THE ACTING CHAIRMAN: Good morning, ladies and
2 gentlemen. If I could have your attention, please, we would
3 like to make a start to this public hearing now. My staff are
4 trying to find some more seats, so if there are more seats
5 available we will try to accommodate you.
6
7 In any event, we should make a start. I would like to
8 welcome you to the public hearing. We are inquiring into
9 the maximum water and sewerage prices that Country Energy
10 will be permitted to charge in the Broken Hill, Menindee
11 Sunset Strip and Silverton areas for the period commencing
12 on 1 July 2010.
13
14 I would first like to introduce ourselves. I am
15 Jim Cox and I am Acting Chairman and Chief Executive
16 Officer of IPART. I am joined on this review by my fellow
17 Tribunal member, Ms Sibylle Krieger. This is the first
18 occasion on which IPART will be setting water and sewerage
19 prices for Country Energy. The Tribunal has a long history
20 in setting electricity prices for Country Energy and we
21 also set water and sewerage prices for metropolitan water
22 agencies in Sydney, the Hunter Region and on the
23 Central Coast.
24
25 In 2008 the IPART Act was amended to extend the
26 Tribunal's price-setting powers to include the water and
27 sewerage services provided by Country Energy in the
28 Broken Hill region. The prices set as a result of this
29 investigation will operate from 1 July 2010. The Tribunal
30 has not yet decided on the length of the determination
31 period and is open to suggestions in this regard. I note
32 that Country Energy has suggested a determination period of
33 three years. That would mean that the determination would
34 expire on 30 June 2013.
35
36 As part of this investigation the Tribunal released an
37 issues paper in July 2009 which set out key aspects of the
38 review process. That issues paper outlines some of the
39 matters which the Tribunal considers are important to this
40 review, the matters that its Act says it must take into
41 account in conducting an investigation and also a draft
42 timetable for the review.
43
44 In the issues paper the Tribunal called for
45 submissions from Country Energy, its customers and other
46 interested stakeholders. The Tribunal is most grateful to
47 those who have taken the time and trouble to make a

1 submission. The organisations that made submissions to the
2 review will be presenting their views at the hearing today.
3 All submissions received will be carefully considered by
4 the Tribunal in developing its findings and
5 recommendations.
6
7 The Tribunal considers that this is a most important
8 investigation. In its submission Country Energy has argued
9 that prices of the water and sewerage services that it
10 provides in and around Broken Hill are significantly less
11 than the costs that it incurs in providing these services.
12
13 Country Energy expects to collect in revenue some
14 \$15.3 million in the 2009-10 financial year. However, it
15 is estimated that the actual cost of providing services is
16 much more than this and that it has had to absorb the
17 shortfall.
18
19 In its submission Country Energy has indicated that
20 setting the prices of water and sewerage services at a
21 level that fully recovers the costs of providing these
22 services in a single step would not be in the best
23 interests of the community. Country Energy has therefore
24 advanced four transitional paths to achieve cost recovery
25 over varying periods of time.
26
27 Country Energy has said that the prices also need to
28 increase to support a capital program over the next three
29 years of almost \$15 million per year. Country Energy
30 contends that much of the infrastructure serving
31 Broken Hill, Menindee, Sunset Strip and Silverton is
32 approaching the end of its useful life and requires
33 progressive replacement.
34
35 In addition to the submission from Country Energy,
36 submissions have been received from Broken Hill City
37 Council and the Silverton Village Committee. Both these
38 organisations are critical of elements of Country Energy's
39 submission.
40
41 This hearing is a very important part of a broader
42 price review process. It provides an opportunity for us,
43 the Tribunal, to hear in a public forum from the water
44 businesses and other stakeholders and to question the
45 propositions that have been put forward.
46
47 The submissions made by Country Energy and

1 stakeholders are available to the public through the
2 Tribunal's website.
3
4 Before we commence proceedings today I would like to
5 say a few words about the process for this hearing.
6 You have available to you a timetable which indicates the
7 order in which the organisations will be presenting before
8 the Tribunal. For each organisation appearing a
9 presentation time has been allowed and this will be
10 followed by a period for questions by the Tribunal.
11
12 Assisting the Tribunal today are Tribunal Secretariat
13 members Mr Colin Reid on my right, director water, and
14 Mr Richard Warner, program manager water pricing, who is
15 on his right.
16
17 At the conclusion of all the scheduled presentations,
18 I will make time available for members of the public to
19 express their views and opinions on the proposals that have
20 been put forward to us by Country Energy and other
21 stakeholders.
22
23 The Tribunal will then consider all submissions
24 received and all that is said today when it makes its
25 decisions on water and sewerage prices for the Broken Hill
26 region.
27
28 The Tribunal plans to release a draft report and draft
29 determination for public comment in March 2010. Interested
30 parties will then have a three to four-week period to make
31 submissions for consideration by the Tribunal before it
32 makes its final decision. A final report and determination
33 will be released in June 2010.
34
35 I should point out that the proceedings today are
36 being transcribed for the benefit of the Tribunal and to
37 keep a record of the proceedings and that will be made
38 publicly available.
39
40 We will commence today with the Tribunal's Secretariat
41 making a short presentation on some of the key issues as we
42 see them and I will ask the representatives from
43 Country Energy to make their presentation following that.
44 I will ask Richard to make his presentation now.
45
46 MR WARNER: Thank you, Jim. Thank you for coming.
47 You're a very large audience.

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1
2 UNIDENTIFIED SPEAKER: And a very angry audience.
3
4 MR WARNER: I'm sure we'll hear about that too. As we
5 understand it, the services provided by Country Energy to
6 the Broken Hill region in terms of water and sewerage are
7 treated water, untreated water, chlorinated water, effluent
8 water, as well as sewerage, trade waste and some
9 miscellaneous and ancillary services.
10
11 Just briefly, the big picture about how we set prices.
12 Clearly, Country Energy provides those services to you.
13 They have a revenue requirement in providing those services
14 and one of the things that IPART is looking for is trying
15 to figure out what that revenue requirement is.
16
17 They also earn unregulated revenue and some of that is
18 in the form of subsidies and contracts they may have.
19 We know they have a contract with Perilya Mines and that is
20 an unregulated service at this point in time. If we deduct
21 that unregulated revenue from the revenue requirement,
22 we end up with a regulated revenue and from that we
23 determine prices for those services. That is very briefly
24 how we do this process.
25
26 A number of issues that are important to any review is
27 the level of capital expenditure. We understand that
28 assets are ageing and need replacing. Capital expenditure
29 of more than \$10 million per year is planned over the
30 foreseeable future, as we understand it, and Country Energy
31 has also been working diligently on the Mica Street water
32 treatment works and that's yet to be commissioned, but we
33 understand that's going to cost over \$40 million and work
34 on that is in progress.
35
36 UNIDENTIFIED SPEAKER: Excuse me, is that \$30 million or
37 \$40 million you said?
38
39 MR WARNER: I said \$40 million.
40
41 UNIDENTIFIED SPEAKER: That has gone up \$10 million
42 since this morning.
43
44 MR WARNER: Okay. I'm sure Country Energy --
45
46 UNIDENTIFIED SPEAKER: It started off at \$30 million.
47

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1 MR WARNER: I am sure Country Energy will have
2 something to say about that in their presentation.
3
4 UNIDENTIFIED SPEAKER: It's gone up further.
5
6 MR WARNER: One of the questions we do have for them is
7 the cost of Mica Street.
8
9 Operating costs are also an important feature of any
10 price determination. Operating costs over three years from
11 2007-8 to 2009-10 averaged about \$12 million per year.
12 Operating costs over the three years from 2010-11 to
13 2012-13 - that's the next three years - are expected to
14 average a little over \$14 million per year and that
15 represents an increase of about 20 per cent. We will have
16 a few questions of Country Energy about that level of
17 increase too.
18
19 There are various elements included in determining a
20 revenue requirement. One of those is operating costs.
21 Another is the value of assets and included in that value
22 of assets is any capital spends they undertake. Another
23 one is a rate of return, or effectively a profit margin, and
24 depreciation. We refer to that as a return of capital.
25
26 One of the things that Country Energy has proposed is
27 full cost recovery, as Jim Cox mentioned. Country Energy
28 contends that costs are significantly under-recovered at
29 current price levels. It appears that revenue would need
30 to increase by about 230 per cent before inflation by
31 2012-2013 to achieve full cost recovery. That is a
32 calculation that has been made by the Tribunal. It is
33 proposed that prices could increase - this is
34 Country Energy's proposal - by 10 per cent per year,
35 15 per cent per year or 20 per cent per year to achieve
36 that full cost recovery objective.
37
38 Just to show you what that would mean - this is a
39 little bit more about that - these are the elements that
40 Country Energy contends it needs to achieve full cost
41 recovery. As you can see, each element increases.
42 Operating costs are going up a smaller amount, the largest
43 increase is in terms of their rate of return and
44 depreciation is also significantly higher than they're
45 currently getting.
46
47 In terms of cost recovery, one of the main drivers of

1 that very increased rate of return-type number that I put
2 up there previously is the manner in which Country Energy
3 proposes that assets be valued. They are proposing that
4 they be valued on a replacement cost basis and that's
5 optimised depreciated replacement cost and the value
6 they're proposing is a little over \$334 million. The asset
7 valuation methodology will also influence the depreciation
8 allowance and Country Energy seeks \$11 million per annum
9 for that.

11 Rate of return is usually determined by the weighted
12 average cost of capital and Country Energy is seeking a
13 weighted average cost of capital of almost 9 per cent per
14 annum real pre-tax.
15

16 What does that mean for customers? These are
17 calculations made by the Tribunal. Full cost recovery over
18 three years for a property consuming 300 kilolitres of
19 water would see bill increases from \$931 to a little bit
20 over \$3,000 in 2012-13 before inflation --

22 UNIDENTIFIED SPEAKER: It was bought with wages,
23 including yours too, Mister. We're sovereign and we own the
24 asset. We're shareholders in the asset.
25

26 MR WARNER: I am trying to present you with a picture so
27 that you have a level of understanding --

29 UNIDENTIFIED SPEAKER: It's a whole heap of rubbish. It
30 depends on where you come from.
31

32 MR WARNER: -- so that we can move forward with the
33 debate. A 10 per cent increase in prices would see bills
34 increased to \$1,200 by 2012-13 --
35

36 UNIDENTIFIED SPEAKER: Where are the pensioners going
37 to get the money?
38

39 MR WARNER: There will be 12 years of such increases -
40 there will be time further on in the hearing for people to
41 make comments - and a 15 per cent - I'm just trying to make
42 sure we have a common understanding of what this
43 proposition is that's being put to you.
44

45 UNIDENTIFIED SPEAKER: You're trying to rip us off.
46 B.....!
47

1 MR WARNER: No decisions have yet been made.

2

3 (Various interjections)

4

5 THE ACTING CHAIRMAN: Can I just remind people that
6 there will be a chance for comments and questions later in the
7 morning. I would appreciate it very much if you'd let
8 speakers --

9

10 UNIDENTIFIED SPEAKER: Sit down on your chair. You'll
11 forget about it after you all leave.

12

13 THE ACTING CHAIRMAN: We will hear what you've got to
14 say. Don't worry about that. I would be grateful if you let
15 speakers continue uninterrupted.

16

17 MR WARNER: A 15 per cent increase would see bills
18 increase to \$1,400 by 2012-2013 and there will be eight
19 years of such increases and a 20 per cent annual price
20 increase would get up to \$1,600 by 2012-13 and there would
21 be seven years of such increases.

22

23 IPART for its part usually adopts a different approach
24 to that proposed by Country Energy. We normally calculate
25 the value of assets on an economic basis and that looks at
26 the current earning capacity of those assets at any point
27 in time. We then make decisions about whether to allow
28 expenditures for replacing assets during the price path
29 period.

30

31 An economic value would give a value of less than
32 \$80 million at best for Country Energy's water and sewerage
33 assets in Broken Hill and, as I've said, that's at best.
34 The Tribunal has not yet made any decision on that
35 valuation. Recent WACC decisions of the Tribunal have been
36 less than the 9 per cent proposed by Country Energy of
37 about 6.5 to 7.5 per cent.

38

39 Some of the key issues in terms of the form of price
40 regulation we will need to consider are a Country Energy
41 proposal for a rate cap or a revenue cap with an
42 unders-and-overs adjustment. One of the concerns the
43 Tribunal has about that is that it insulates Country Energy
44 from any revenue risk. It virtually guarantees their
45 revenue.

46

47 We also need to determine whether we set prices or

1 just determine the revenue that Country Energy is allowed
2 to keep or collect. As Jim said, we also need to determine
3 the length of the price path. Country Energy is seeking a
4 three-year period.

5

6 Some of the key issues we will need to pursue and will
7 be questioning Country Energy about today are these:

8

9 - Are Country Energy's current operations at Broken Hill
10 efficient?

11

12 - What is the proper asset value for the purpose of
13 calculating a rate of return on capital?

14

15 - What is the appropriate rate of return?

16

17 - Is Country Energy proposing any changes to service levels
18 and if so at what cost?

19

20 - Does it have proper asset management practices in place?

21

22 - Are the water operations of Country Energy being
23 allocated a fair share of Country Energy's corporate costs
24 or in fact are they giving you a bit too much?

25

26 - What is the most appropriate form of regulation?

27

28 - What is the capacity of the community to pay additional
29 costs and how should price increases be phased in?

30

31 As I said, they are some of the things that we will be
32 considering today.

33

34 THE ACTING CHAIRMAN: Thank you very much, Richard.
35 I would now ask the representatives of Country Energy to
36 make their presentations. I would request that they be
37 heard in silence. That will help us get through the
38 program as quickly as possible and give as many people the
39 chance to speak as possible. Country Energy, could you
40 please state your names and positions for the record and
41 then make your presentations.

42

43

44

45

46

47

1 COUNTRY ENERGY

2
3 MR CHICK: Thank you, Richard. Just dealing with the
4 formalities, I am Guy Chick. I am the Regional General
5 Manager Far West and Water Operations for Country Energy.
6 I am here basically to present submissions.

7
8 First of all, we would like to welcome the Tribunal to
9 Broken Hill. We do appreciate being given the opportunity
10 to have a forum here. I am going to give a quick
11 introduction on Country Energy in Broken Hill.

12
13 For the Tribunal's benefit and just as an interesting
14 bit of an intro here, Broken Hill is a very proud place and
15 it's unique. It has had an extraordinary past. By that
16 I'm saying it has contributed significantly nationally and
17 globally as regards matters mining, social, industrial and
18 agriculture. It is a significant contributor. As for the
19 future, we're looking forward to an exciting and prosperous
20 future and welcome the Tribunal to Broken Hill.

21
22 We have broken the submissions down into about four
23 components. I will be covering off on the first point and
24 that's just a general overview of the local infrastructure.
25 By the way, I'm local; I'm from Broken Hill.

26
27 We are going to have a couple of presenters here. The
28 second presenter will be Gary Humphreys. He is the
29 Executive Manager Infrastructure Operations. Gary is going
30 to speak on some key issues. He is going to speak on
31 proposals regarding infrastructure investment and
32 infrastructure operations.

33
34 Next, we have Bill Frewen. Bill is the Executive
35 Manager of Customer and Corporate Affairs. Bill is going
36 to cover off on the pricing information we put through to
37 the Tribunal. Bill is also going to be speaking on potential
38 pricing approaches. He will cover off on that.

39
40 The last presenter we will be having is Travis Nadge.
41 Travis is Group Manager Water. He is also based in
42 Broken Hill. Travis is going to cover off on some of our
43 proposed infrastructure investments and some of the
44 projects we are running with. Please, folks, just bear
45 with us and we'll work through this.

46
47 Could I give a quick run-down on Country Energy.

1 We are a New South Wales state-owned corporation and we
2 operate the largest electricity network in Australia.
3 We cover around about 95 per cent of New South Wales.
4 We have approximately 4,500 employees across 140 locations.
5 It is broken down into eight regions. We are the Far West
6 region and the Far West region incorporates Country Water.

7
8 We have put on a number of apprentices over the years.
9 There are a couple of quick things that I think are worth
10 sharing. Since we were formed in 2001, we've put on
11 740 apprentices and we're looking at about another
12 90 apprentices this year. Apprenticeships are a big thing
13 to us in the bush and so we'd like to think that we've done
14 that.

15
16 Another thing too is that of the 90 people that we
17 mentioned there that are employed by Country Water, there
18 are locally based support staff there and we're talking
19 about staff that occupy the customer service centre.
20 We have meter readers and people like that. On top of
21 those 90 people, there are other resources associated with
22 Country Water in Broken Hill.

23
24 I will give you just a quick run-down of the plant and
25 services that we have here. There's treated water and
26 that's obviously for Broken Hill and Menindee. There's
27 chlorinated water which we provide to the townships of
28 Silverton and Sunset Strip. There's untreated water,
29 that's on the pipeline and the pipeline is from Menindee to
30 Stephens Creek. Effluent water - I think we get rid of
31 about 6 per cent of that right now in legislation or
32 compliance. I think we expect to have full distribution of
33 that in the near future and sewerage reticulation in
34 Broken Hill.

35
36 Here is just another screen with some simple
37 statistics. Broken Hill has around about 10,500 customers
38 that receive treated water. By that we're saying about
39 9,200 residents and businesses. It services 9,500. When
40 we get to Menindee, there's the treated water in Menindee
41 for just over 200. Silverton has around about 40 customers
42 out there, Sunset Strip about 140 and raw water we have
43 from the pipeline customers.

44
45 This is a bit of a snapshot of the business as well.
46 We service the most arid part of the New South Wales and
47 we're still very much drought declared. The first water in

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1 Broken Hill's infrastructure here, when they first started
2 providing water infrastructure provisions out in the
3 Far West, was in 1888 and I think the Imperial and
4 Wyman Dams were the two starters. Around about three years
5 after that they decided they needed more water, so they
6 actually struck it at the Umberumberka water reserve.
7 I think that was finished in about 1892.

8
9 (Inaudible interjection). Thanks, Danny. The first two were
10 Stephens Creek in 1892 and we started Umberumberka
11 in 1914. Obviously, there was a significant improvement in
12 supply when we connected to the Darling River. The
13 statistic there too, you can see last year, about 4,500
14 megalitres was actually a decrease. It shows people are
15 saving water which is something to be proud of. Out here
16 people are very much water conscious.

17
18 MR TOM KENNEDY: Actually, people are decreasing their
19 water consumption. You're planning to increase it further
20 which means there will be a further reduction in water use
21 and that will not make one difference to the amount people
22 pay. With that 10 per cent decrease in water usage, I bet
23 you that people's water prices and rates will continue to
24 rise because at the end of the day you have fixed charges
25 and you want a return on investment.

26
27 The fact is it doesn't matter what we're using in
28 Broken Hill. We will continue to pay more for water.
29 We could use a third of what we're using today and you'd
30 still want to collect \$5,500 per household in Broken Hill
31 per year: \$5,500. You're talking about infrastructure in
32 the Water Board. How about our own houses? How do you
33 think we're going to afford to pay for our houses if we're
34 paying \$5,500 for water? You can't deny that because
35 you're talking \$55 million for 10,000 residents. Work it
36 through.

37
38 THE ACTING CHAIRMAN: Can I ask you to let Country
39 Energy make their presentations. We will come to the points
40 that are of concern to you later on I believe.

41
42 MR TOM KENNEDY: Let's get to the person who is going to
43 do the hard work, Bill, the spin doctor for Country Energy.

44
45 MR CHICK: We'll work through this, folks.

46
47 UNIDENTIFIED SPEAKER: All this is a heap of b.....

1 rubbish.

2
3 MR CHICK: This will give you an idea of the capacity of
4 what we're holding - Stephens Creek, Umberumberka and
5 Imperial Lake is an emergency --

6
7 UNIDENTIFIED SPEAKER: You couldn't drink it,
8 Imperial Lake, and that's what you're supposed to --

9
10 MR CHICK: When consumption is down we rely on the
11 pipeline. Folks, please bear with us. We'll be able to
12 work through some of these. I will introduce
13 Gary Humphreys.

14
15 MR HUMPHREYS: Thank you, Guy. Good morning,
16 everyone. My name is Gary Humphreys. I am the Executive
17 General Manager of Country Energy and Country Water. I
18 want to touch on some of the key issues that we're facing.
19 Just before I do that, I want to outline what we think the key
20 objective of Country Energy is and that is to provide a
21 safe, reliable and quality water and sewerage service to
22 Broken Hill and its surrounding areas. Obviously, we think
23 Broken Hill deserves that and we've actually already made
24 significant investments in that respect.

25
26 We are also very mindful that we've got to run an
27 efficient operation. We have to minimise costs. We have
28 to make sure that we reduce the impact on customers. That
29 is incumbent upon us as well. To give a high-quality
30 service to the town requires investment. There are a lot
31 of unique issues in Broken Hill that require a significant
32 amount of investment. We have already made a significant
33 amount of investment, but that investment is going to be
34 ongoing for some years. I suspect that the big issue we're
35 going to come down to today is what's a fair and reasonable
36 price for customers to pay for that investment.

37
38 In a moment Bill will have the task of taking you
39 through pricing, but before I move on I would like to make
40 a few points to start with. It has already been raised
41 here a moment ago, but the pricing we're suggesting is not
42 to get to full cost reflectivity. We are not asking
43 customers at Broken Hill to pay for the full service we
44 provide. We're doing that. You saw a figure up there of
45 240 per cent. That is the figure if we were to get full
46 costs recovered from our operations. We're simply not
47 asking that, we never have, and we'd never put that in the

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1 submission.
2
3 The second point is that zero dividends are paid to
4 government, absolutely zero. Not one cent of the water
5 operation goes to the government.
6
7 The third point that I would like to make is that the
8 water operation is currently heavily subsidised by both
9 Country Energy and the New South Wales State Government.
10 It is already a heavily subsidised business. Please keep
11 those three points in mind as we go through the
12 presentation.
13
14 There are some key issues. I think we all know about
15 water scarcity and ageing infrastructure. A lot of the
16 assets here are over 70 years old. They need replacing.
17 That's no different to a lot of infrastructure issues
18 around country New South Wales. We know about water
19 scarcity. We have been in drought on and off for 10, 15
20 and 20 years in many parts. We're having a reprieve at the
21 moment, but who knows what's around the corner. We're
22 only asking for a partial recovery of the significant investment
23 that we are making. It's only a partial recovery of the
24 investment.
25
26 Operating expenditure is going to remain steady in
27 real terms. There will be no significant increase in our
28 expenditure over the operating period of three years.
29 We want to make sure that the costs of the service are made
30 transparent to all stakeholders so that everyone can see
31 what it costs us to run the operation. We want to make
32 that very transparent to everyone involved.
33
34 We are well aware - I think we've found out already -
35 that we need to make sure we closely monitor the impacts on
36 customers. We understand the impacts it does have and
37 that's why we've got the Tribunal involved to work out
38 what's a fair and reasonable price, but we're well aware
39 the impact these prices have on the essential services
40 we're providing in Broken Hill.
41
42 We have made some investments already. We have
43 already committed and will hopefully have commissioned in
44 about June next year the new water treatment plant. We
45 have invested \$41 million in that already. Over the next
46 three years we're going to invest \$13 million-odd in the
47 treatment plant.

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1
2 Someone asked a question a moment ago about the cost
3 of that plant. It was \$29 million to actually build the
4 plant, the physical concrete and what not. There are a lot
5 of IT costs, the planning, the design, the environmental
6 compliance, so the cost is \$41 million and it's currently
7 on budget and on target as per the original business case.
8 In total, Country Energy proposes to invest over
9 \$30 million in the next three years.
10
11 The reality is that with the infrastructure we have,
12 we have to make that investment to give you the quality
13 that you deserve. That's the investment we're going to
14 make over the next three years.
15
16 Could I just point out a couple of points on the
17 slide. That is our capital and operating expenditure. You
18 can all see the big spikes there in the darker colour.
19 That's the water treatment plant. Once we deliver that
20 this year, it will substantially reduce in 2010-11. The
21 lighter colour there is our opex, our operating
22 expenditure, which is relatively stable over the other
23 years.
24
25 In a moment Travis will take us through all the
26 investment and pricing decisions that we've made that make
27 up those investments over the next 10 to 12 years. Bill
28 will take us through the pricing proposal.
29
30 UNIDENTIFIED SPEAKER: How many b.. more have you got?
31
32 MR FREWEN: Just one more after me, sir.
33
34 UNIDENTIFIED SPEAKER: One more after you!
35
36 MR FREWEN: I am Bill Frewen and I'm in charge of
37 customer and corporate affairs. The interesting thing about
38 today is we've never had the opportunity to do this before,
39 ever. The way our prices used to be set was we used to send a
40 letter to the Minister for Water in the State Government
41 and he'd flick that to his department and they'd have a
42 quick look at it and see if it seemed reasonable and he'd
43 approve the prices. You never got the opportunity to see
44 what we were spending, what we were doing or what we
45 were proposing to do over future periods. It was an annual
46 thing, so it was just never --
47

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1 MR TOM KENNEDY: That's not true, Bill.
2
3 MR FREWEN: You never got a long-term view.
4
5 MR TOM KENNEDY: That's not true. Inland Energy always
6 kept the people of Broken Hill informed on what prices were
7 charged.
8
9 MR FREWEN: So are we today, Tom.
10
11 MR TOM KENNEDY: You said it never happened before,
12 but it has happened before.
13
14 MR FREWEN: The difference is what didn't happen before
15 was a public forum and an independent tribunal. I was
16 hoping we could perhaps agree that this is a worthwhile
17 process. Even if we all have a different view about the
18 outcome, at least this is a fair and transparent process.
19 I hope you'll be reasonable.
20
21 UNIDENTIFIED SPEAKER: Why didn't you have it in a
22 decent b..... hall instead of this little dinky thing? You were
23 only hoping not many people would turn up.
24
25 MR WARNER: That's our fault, not his.
26
27 MR FREWEN: With all due respect to the Tribunal, they
28 made that decision, not us. We expected a pretty good
29 roll up. As Mr Cox from the Tribunal has stated, we're
30 proposing a three-year price path. If you've got other
31 views - if you'd prefer five years or one year - here is
32 the time to put that forward, but we think three is the
33 correct one.
34
35 UNIDENTIFIED SPEAKER: Listen, in the last five years
36 you've had about three price hikes already. It's gone
37 right up. How many more are you going to have?
38
39 UNIDENTIFIED SPEAKER: I agree.
40
41 UNIDENTIFIED SPEAKER: Who's going to pay for the
42 bludgers when we've only got a pension? We're not you
43 Rothschild b..... walking around the streets tripping over
44 from having plenty of money in your pockets, we're all
45 pensioners, and you're going to put the b....prices up.
46 You're a mob of w....., the lot of you! A lot of b.....
47 w.....!

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1
2 UNIDENTIFIED SPEAKER: We could refuse to pay. Nobody
3 in the town has signed an agreement with you people. These
4 are only voluntary charges. If enough people stood up and
5 opposed you and said, "No, we're not going to pay you" -
6 we haven't signed anything with you. If we stood up
7 against all the planning and corporate stooges - this man
8 here - motor vehicles running around the town, which they
9 use on their holidays, going to Adelaide, all this c... has
10 to stop. It was handled under the Broken Hill Water Board.
11 You just stated a moment ago the government doesn't get
12 anything out of it. Who controls this? Is this an
13 offshoot of Macquarie Bank? It is corporatised?
14
15 Another incident is the Brigalow Corporation. We have
16 the management of the Broken Hill City Council sitting
17 here. Now all new local councils have been corporatised.
18 The new logo is on the front door of council. It has a
19 kangaroo jumping through the sun. This is a thing by
20 stealth and gradualism. We will no longer own our own
21 homes. In Queensland Bligh and Beattie put it through that the
22 people no longer owned their homes, that it's used as
23 collateral for corporatisation.
24
25 MR FREWEN: This isn't quite relevant.
26
27 UNIDENTIFIED SPEAKER: The people are charged.
28
29 THE ACTING CHAIRMAN: Ladies and gentlemen, we have
30 a lot to get through. We want to hear as many people as
31 possible.
32
33 UNIDENTIFIED SPEAKER: This is a heap of rubbish.
34
35 THE ACTING CHAIRMAN: It would help if we let Country
36 Energy make their comments now. Bill.
37
38 MR FREWEN: This is the chart that generated a lot of
39 media interest and a lot of comment. This line here is a
40 price path that would see us recover what any normal
41 business would recover with its capital. Just bear with
42 me. As Gary said, that is exactly what in our submission
43 we absolutely ruled out, so all of the prices you saw -
44 \$3,000 a year and everything - are nonsense. We never said
45 it. What we said was --
46
47 UNIDENTIFIED SPEAKER: It's going up 370 per cent.

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1
2 MR FREWEN: Country Energy has proposed a transition
3 price to limit the impact of full-step adjustments. We ruled
4 this out. This is what we propose. With respect to the
5 \$41 million we've spent on the Mica Street water treatment
6 plant, we went to New South Wales Treasury and said,
7 "Broken Hill must have a new water treatment plant and we
8 say we're going to build it." We financed it ourselves.
9
10 UNIDENTIFIED SPEAKER: The taxpayers. Where did you
11 get the money from in the first place? It's the taxpayers.
12 They own the assets. The people are sovereign. They own
13 the assets.
14
15 MR FREWEN: It came from borrowings and from
16 Country Energy's earnings. That's where the money came
17 from. My point is I think perhaps there's one thing on
18 which we all do agree and that is that these operations
19 should continue to be subsidised. Does anyone disagree
20 with that? We all agree at least on that.
21
22 UNIDENTIFIED SPEAKER: The State Government is doing it.
23
24 MR FREWEN: Very good. That is exactly what we are
25 saying today, that these operations should continue to be
26 subsidised --
27
28 MR TOM KENNEDY: I'd like to ask a question, Bill.
29
30 MR FREWEN: -- and the only question is - Can I finish,
31 Tom? The only question is --
32
33 MR TOM KENNEDY: No, I'd like to ask a question, Bill.
34
35 MR FREWEN: Can I finish? Fair go.
36
37 MR TOM KENNEDY: It used to be \$2 million. When it was
38 the Water Board \$2 million was enough to cover operating
39 costs. How can you say that the subsidy you need is
40 \$50 million from the State Government? What are you doing
41 there?
42
43 MR FREWEN: We're investing.
44
45 MR TOM KENNEDY: The Water Board operated on \$2 million.
46
47 MR FREWEN: With respect, the Water Board never had the

1 means to invest in a brand-new water treatment plant like
2 we have.
3
4 MR TOM KENNEDY: Four years ago we paid about \$5 million
5 or \$6 million and now you're talking \$20 million over that
6 period. You're talking a 300 per cent increase.
7
8 MR FREWEN: We're not: that's our point.
9
10 MR TOM KENNEDY: Five years ago, Bill.
11
12 MR FREWEN: We proposed three price paths: a 10 per cent,
13 a 15 per cent or a 20 per cent price increase. It is the
14 Tribunal's job to make the decision how much that should be
15 now.
16
17 UNIDENTIFIED SPEAKER: We don't get that in a pension
18 rise. You're lucky to get that.
19
20 UNIDENTIFIED SPEAKER: People have had to give up their
21 nature strips and their front gardens. What else do you
22 want us to give up?
23
24 MR FREWEN: That's the point the Tribunal needs to hear.
25
26 THE ACTING CHAIRMAN: Can we let Country Energy
27 make their presentation, please.
28
29 MR FREWEN: Just as a final point, on comparisons with
30 water users such as yourselves and other parts of New South
31 Wales, we are doing pretty well. I appreciate that
32 Broken Hill is unique, I appreciate that the water needs of
33 this town are unique and again, that's why we say this town
34 deserves a subsidy. On that I hope we can agree.
35
36 UNIDENTIFIED SPEAKER: The gardens are b..... dying in
37 Broken Hill. We can't afford to water them.
38
39 UNIDENTIFIED SPEAKER: It rains in b..... Sydney all the
40 time.
41
42 MR FREWEN: Once more for clarity, to make sure that you
43 hear it, we have not proposed full cost recovery. We have
44 simply not proposed full cost recovery.
45
46 MR TOM KENNEDY: That's only for three years. What
47 happens after that?

1
2 MR FREWEN: We have proposed that prices must be
3 smoothed to minimise the impact on customers. Just as an
4 aside, we're not proposing to change the tariff structure
5 fundamentally in any way. We will retain a two-tier
6 pricing system.
7
8 That's it from me. I would like to introduce
9 Travis Nadge to talk a little bit about where the money is
10 going.
11
12 MR NADGE: Thank you. I will just run through what
13 capital investment is going to be over the next couple of
14 years.
15
16 UNIDENTIFIED SPEAKER: How much does it cost you for
17 the water? Nothing. It falls out of the sky.
18
19 MR NADGE: An independent review of all Country Water
20 assets has been undertaken. It's all about supporting the
21 delivery of effective and efficient regulated water and
22 sewerage services. We need to meet water demand and
23 address an ageing asset base going forward. We also need
24 to maintain those assets in good operating condition,
25 reduce the incidence of premature failure and preserve and
26 enhance the operational life of the assets.
27
28 We need to ensure that deteriorating assets are
29 scheduled for refurbishment or replacement following
30 routine inspection and/or condition assessment. We also
31 need to meet reliability and quality standards and
32 compliance obligations there as well. We also need best
33 practice financial management to balance that investment
34 and recurring expenditure.
35
36 As an average over the next three years the dollars
37 that we're looking to invest is \$7 million in water and
38 about \$4.5 million in sewerage. I'll just run through some
39 of the key infrastructure projects we have. The Menindee
40 to Broken Hill Pipeline - we all know this - was completed
41 in the '50s. It is a 600mm steel pipe with cement lining;
42 a rising main, a 270-metre lift all the way from Menindee
43 to Broken Hill. It was constructed in the 1950s.
44
45 What we're proposing for the pipeline over the next
46 few years is refurbishment of the discharge pipelines, the
47 rebuilding of pumps and motors, civil works on some of the

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1 buildings and replacing targeted sections of the pipeline
2 at an average cost of \$1.5 million a year.
3
4 MR TOM KENNEDY: Why should the people of Broken Hill
5 pay to have water delivered to them? All we expect is a
6 service provided by you. The State Government should
7 ensure that we have water at our doorstep and we pay from
8 then on. We shouldn't be paying to upgrade the Menindee to
9 Broken Hill pipeline and it shouldn't be in your
10 submission. You should be asking the Government to fund
11 it. We shouldn't be funding it.
12
13 UNIDENTIFIED SPEAKER: That's right.
14
15 MR NADGE: At the moment, we manage that pipeline.
16
17 MR TOM KENNEDY: Don't put that as part of your cost
18 recovery and say that that's an expense for the people of
19 Broken Hill. The State Government has an obligation to
20 ensure that every community is supplied with water and it
21 comes to the point that where there is no water, they
22 supply trucks to make sure there is water, so why are you
23 talking about that part of the pipeline is our expense?
24
25 MR HUMPHREYS: We agree. As I said before, we agree.
26 It is heavily subsidised, but as I also said earlier, the
27 point is --
28
29 MR TOM KENNEDY: You're double dipping.
30
31 MR HUMPHREYS: The point of this process is to show you,
32 as customers, where that is.
33
34 MR TOM KENNEDY: Don't put the guilt trip on us. We
35 don't care. Fix the pipeline. We pay for what's here not
36 what's from Menindee to Broken Hill. You go to the
37 State Government and say, "Look, we want the money."
38 Don't put the guilt trip on us.
39
40 MR HUMPHREYS: This is not an attempt at a guilt trip at
41 all. It is an attempt at transparency.
42
43 THE ACTING CHAIRMAN: Once again, ladies and
44 gentlemen, can we let Country Energy make their
45 presentation, please. Continue, Travis.
46
47 MR NADGE: Stephens Creek Reservoir has a capacity of

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1 19,000 megalitres. We have 200 megalitres of water pumped
2 from the Darling River to Broken Hill. We have some
3 proposed works to improve dam safety there in the order of
4 \$135,000.

5
6 These are photographs of Umberumberka Reservoir in
7 good times and not so good times. Umberumberka Dam is
8 located 30kms north west of Broken Hill and has a capacity
9 of 9,000 megalitres. Water is pumped to Broken Hill using
10 diesel powered pumps. The dam is a deep, efficient
11 storage, but the catchment is not a reliable water storage.
12 It was constructed in 1915. We have proposed works which
13 include dam safety works as well.

14
15 MR WATSON: Is it still a deep storage or is it virtually
16 a pond because of the silt?

17
18 MR NADGE: It is still a storage, yes.

19
20 MR WATSON: I have a question. What happened to the
21 membrane that you were going to put over the top to stop
22 evaporation?

23
24 MR NADGE: Can we talk about that later?
25 Umberumberka Pipeline is nearly 100 years old and is
26 getting towards the end of its useful life. Sections of
27 the pipeline are being assessed and will need to be
28 replaced going forward. We need to replace some concrete
29 anchor blocks there as well due to soil movement, at an
30 estimated cost of \$55,000. We need to replace things like
31 obsolete air valves, et cetera, on the pipeline.

32
33 Mica Street. That is the old plant. As you know, the
34 original No.1 Reservoir Tank is heritage listed. It was
35 built in 1892. Filters were added in 1898. More filters
36 were added in the 1930s. Chlorine was added in the 1940s.
37 Fluoride was added in the 1970s. The building we know
38 today was built in the 1950s. Current Broken Hill demand
39 is 10 megalitres per day in the winter and 24 megalitres
40 per day in the summer. We have spoken about this as well.
41 There has been a \$41 million investment by Country Energy
42 to complete the new water treatment plant. It is scheduled
43 for completion by June next year. It will have a capacity
44 of 31 megalitres per day. That is an artist's impression
45 of what the new plant will look like.

46
47 Rocky Hill Tank is another investment we will need to

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1 look at refurbishing in the next couple of years, around
2 the roof structure, et cetera. It is a steel tank. It has
3 the highest elevated surface area in Broken Hill. It has
4 been used continuously throughout its 39 year life. Diving
5 surveys have confirmed that we need to do urgent
6 refurbishment work. To take it out of service a
7 contingency storage will need to be available. The value
8 of that investment will be \$800,000.

9
10 The Wills Street Sewerage Treatment Plant was
11 constructed in 1939 and was augmented in the 1950s and
12 again upgraded in the 1980s. It is a conventional
13 anaerobic trickling filter system that treats 3 megalitres
14 of influent per day. The plant has many issues, including
15 high septicity of incoming waste water, structural defects,
16 sludge digestors without roofs that impact on their
17 performance and the final treated effluent is only suitable
18 for controlled public access.

19
20 A condition assessment process is being prepared on
21 the plant to determine optimal refurbishment plans.
22 Proposed works include replacement of mechanical plant,
23 extension of the effluent line and sealing internal roads,
24 with an estimated cost of \$695,000. Further expenditure
25 for planning and design to refurbish major plant and
26 associated works will cost \$500,000 next year. Total
27 refurbishment costs are estimated at \$13 million up to
28 2013.

29
30 MR TOM KENNEDY: Could I ask one more question, Travis?

31
32 UNIDENTIFIED SPEAKER: Afterwards!

33
34 THE ACTING CHAIRMAN: I think it's best if you wait until
35 later.

36
37 MR TOM KENNEDY: When is Country Energy planning to
38 privatise? Country Energy and Country Water - how long can
39 we expect before they're privatised? It seems like to me
40 it's probably a privatisation plan to make sure that it's
41 not going to cost whoever takes it over next anything.

42
43 THE ACTING CHAIRMAN: I think it is perhaps worth making
44 the point, while the next representative comes up, that
45 water does need to be stored, transported and treated and
46 what's really at issue here is who should pay for that
47 between, if you like, the customers of Country Water and

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1 the general taxpayers of New South Wales in one shape or
2 another. That really is the issue at stake here. There
3 are certainly costs in storing, transporting and treating
4 water.
5
6 UNIDENTIFIED SPEAKER: C.....
7
8 UNIDENTIFIED SPEAKER: They're all trying to brainwash us.
9
10 MR KENNEDY: Which taxpayers paid for yours?
11
12 MR CHICK: I'm going to summarise. Bear with us, folks.
13 What we're trying to do out here is provide water and
14 sewerage services. Our focus really is to provide a
15 reliable and safe service. That has been our focus all
16 along. The other thing is we want to maintain that.
17
18 We do have 10,000 or so customers and our intent is to
19 try to keep our customers happy. We've got guys working
20 24-hour shifts to make repairs and what have you. Our
21 focus is on safety and service, with an emphasise on
22 safety, and that's safety for our people and safety for our
23 customers.
24
25 The other thing we want to do is we actually want to
26 minimise the costs to us. You'd appreciate that we have to
27 pump water 120 kilometres to Menindee. We are very very
28 mindful that we have to push where we can to make sure the
29 costs are defrayed and minimised. We've got to pass the
30 costs we absorb through.
31
32 There are a couple of things worth sharing there that are
33 things we're trying to do to try to get people to save water
34 in their own practices. As I said, after 2002 people really
35 did take matters into their own hands and minimised their
36 water use. There are a couple of things that we've done in
37 the community that has also helped to make that possible.
38 We worked with the schools and I think that was pretty
39 successful. There was also a public site up near Pro Hart's
40 memorial. There are some sites around town that probably
41 demonstrate where you can have reasonable gardens.
42
43 MR TOM KENNEDY: How does that save money, Guy?
44
45 MR CHICK: Tom, you'll have your turn later on.
46
47 MR TOM KENNEDY: They're going to destroy the city.

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1
2 MR CHICK: There was the Water Wise and Lead Safe
3 Program and also for those into the web, there's a water
4 efficiency calculator at www.countrywater.com.au. That's
5 pretty handy. If you look in there, there are things that can
6 actually help you work through better methods of water
7 management. There are little things out there to try and
8 help you to manage water consumption.
9
10 UNIDENTIFIED SPEAKER: What if you don't have a computer?
11
12 MR CHICK: Yes, you're right. I say that to those who
13 have the technology to use it. You can also go to our
14 customer service centre. There's information they'll give
15 you to help you.
16
17 UNIDENTIFIED SPEAKER: Does anybody need to come out
18 and calculate your water usage?
19
20 MR CHICK: I'm sure they could do that.
21
22 UNIDENTIFIED SPEAKER: Guy, could I ask a question?
23 People are getting confused here. Why don't we go straight
24 for the jugular? How much of a percentage increase are you
25 actually asking for? Then we can expand from there.
26
27 UNIDENTIFIED SPEAKER: That's why we're here.
28
29 UNIDENTIFIED SPEAKER: Tell us that.
30
31 MR CHICK: There was a graph that was presented about
32 10 minutes ago which indicated between 10 to 30 per cent.
33
34 UNIDENTIFIED SPEAKER: Ten to 30 per cent? You don't
35 get that in a b..... pay rise!
36
37 THE ACTING CHAIRMAN: Can you please let Country
38 Energy make their presentation.
39
40 UNIDENTIFIED SPEAKER: Thank you, Guy. Can you tell
41 me has the Government subsidy changed in any way? Has it
42 increased, decreased or is it just the same?
43
44 MR CHICK: Unofficially, it has increased significantly
45 because it's paying for the filtration plant.
46
47 UNIDENTIFIED SPEAKER: Unofficially?

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1
2 MR CHICK: Yes, it's getting paid for. As Bill alluded
3 to, it's not being passed through here, someone is paying
4 for it, so in essence it's a subsidy coming from State
5 coffers.
6
7 UNIDENTIFIED SPEAKER: Is the proposed increased cost of
8 that associated directly with the new Mica Street treatment
9 plant?
10
11 MR CHICK: No.
12
13 UNIDENTIFIED SPEAKER: It's not?
14
15 MR CHICK: No. It's an overall strategy as to where the
16 infrastructure is going to head over the period. It is
17 addressing infrastructure improvements and replacements
18 are required. It is most certainly not targeting the new
19 filtration plant. It is much broader than that. I won't
20 be long. Those are the strategies that we have to
21 undertake. I won't read those out, but please take note of
22 that.
23
24 We are very much under an obligation to report to our
25 shareholder, the State Government, in regards to the
26 performance of our business. Being from the bush doesn't
27 excuse us from that responsibility. Every month we have to
28 give our shareholder information in regards to how the
29 business is performing. I will move through that.
30
31 There are a couple of things worth sharing while we're
32 here. Not everyone knows about this, but we found that
33 when Country Support was started in 2001, primarily as a
34 result of the drought, it basically pushed it right across
35 the business. We found a lot of people out here that are
36 struggling through drought circumstances and other
37 circumstances.
38
39 Country Support really does that. You talk with
40 people and they really do work through with you, in regards
41 to financial services and hardships, whether you're in
42 business or what have you, methods such as deferring
43 payments. There are ways of getting through difficult
44 times. Please, it's not too late to share that. There are
45 a lot of rural people in this area that are doing it tough
46 and there's no doubt we're supporting them. Be aware of a
47 thing called Country Support. You can talk with people at

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1 the customer service centre about that.
2
3 The other thing we've got going is Easy Pay. If you
4 find that your bills are cyclical, a bit up and down,
5 people pay them in, there are a number of things that are
6 designed to help. Country Water are trying to help people
7 with better consumption use. That has been launched now.
8 Once again, they are initiatives to try to slow the use of
9 water.
10
11 This forum is a good opportunity for us to share that.
12 I know there are a lot more things we have to cover, but
13 people know that if they're doing it a little bit tough,
14 they can come and talk to us. That is very important.
15
16 MS MURRAY: Excuse me, Guy, I want to ask a quick
17 question. A minute ago in the address by Travis about
18 infrastructure replacement there was no mention of
19 Silverton, or any outlying area for that matter. Could you
20 give us a run-down on what we can expect in the future from
21 these price reviews?
22
23 MR CHICK: The question is what are we doing at Silverton
24 in regards to the supply there? At this stage, with
25 respect to the residents of Silverton, our main aim is to
26 continue with what we're doing now and that is to provide
27 water with the treatment that it gets now. We have no
28 proposal in there. I think you probably might be alluding
29 to a filtration plant. Is that what you're alluding to?
30
31 MS MURRAY: There are several issues. I just wanted you
32 to give everyone a quick overview if you have any plans for
33 Silverton and any outlying areas. We're paying our bills
34 too.
35
36 MR CHICK: Our focus is planning for the assets. The
37 infrastructure is there too.
38
39 THE ACTING CHAIRMAN: We will have a chance to talk
40 about Silverton's issues a little bit later on.
41
42 MR CHICK: Could I move to the Summary page. Our
43 proposal is that we want to deliver reliable, safe and efficient
44 water and sewerage services to all of our customers. It's
45 as simple as that. I want to emphasise that. Our main
46 focus every year with regard to supplying water to
47 Broken Hill was quantity. We pushed quantity. We needed

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1 about 18 months supply to Menindee township to make sure
2 that the area had sufficient water.

3
4 We are also pushing quality now. It is so important
5 because we found a number of years ago that the quality
6 wasn't there. That's when we really did have trouble. Our
7 capability for treating was really diminished. We are
8 pushing quality and quantity throughout the business, as
9 well as safety and service to our customers. Thank you,
10 folks.

11
12 (Applause)

13
14 THE ACTING CHAIRMAN: Thank you very much to
15 Country Energy and their representatives for their
16 presentation. The next stage is for the Tribunal's
17 representatives and the Tribunal itself to ask questions of
18 Country Energy. I would ask Richard and Colin to start
19 off.

20
21 MR REID: Thank you very much, Jim. The first question
22 I would like to ask Country Energy is you've nominated a
23 range of increases in revenue to apply over the next three
24 years. I'm just picking up one of the points some other
25 people have made.

26
27 Country Water has nominated a range of increases in
28 revenue to apply over the next three years, increases from
29 10 per cent possibly through to 20 per cent. Can I ask you
30 what the specific proposal that you have on the table in
31 relation to that is, whether it's 10 per cent, 15 per cent
32 or 20 per cent?

33
34 MR FREWEN: We're going to leave that job to you, informed
35 by the people in this room, but you're quite right, that is
36 the range we've proposed.

37
38 MR REID: So there's no preference being expressed by
39 Country Water in relation to that?

40
41 MR FREWEN: No.

42
43 MR REID: In the period from 2006-07, 2008-09 to 2009-10
44 there is a declining trend in operating expenditure from
45 about \$15 million in 2006-7 to approximately \$10 million in
46 2009-10. On your forecast there was an increase to over
47 \$16 million in the following year and it remains

1 substantially higher than what it has been over the
2 previous years. Can you explain that variation in
3 expenditure, particularly the jump between the current year
4 and next year?

5
6 MR FREWEN: Is this operating expenditure?

7
8 MR REID: Operating expenditure, that's right.

9
10 MR FREWEN: It is basically the allocation between capital
11 and opex changes. When capital expenditure is high we
12 allocate more costs to capital. When capital expenditure
13 is low we allocate more capital to counter that.

14
15 MR CHICK: In addition to that, there was an independent
16 assessment of where our operating expenditure was going
17 and we were finding that material costs was something that
18 was increasing significantly.

19
20 MR FREWEN: The underlying opex operating expenditure is
21 very stable in fact. You might recall from the graph that
22 I presented, the last line of capital this year, putting
23 money through the plant, that the spike comes back quite
24 considerably. A lot of the accounting treatment is how
25 those on-costs get treated and convert to opex.

26
27 MR REID: There doesn't appear to be complete accounting
28 separation between the operations of Country Water from the
29 rest of Country Energy. You talk about that presumably
30 corporate overheads is the driving force, if you like,
31 between those variations from one year to the next in the
32 operating expenditure. How can we be sure that there is no
33 inappropriate cost shifting between Country Energy and
34 Country Water?

35
36 MR FREWEN: I think we've provided you with a heap of
37 data to allow you to make that judgment, but we would be
38 happy to submit ourselves to whatever scrutiny you deem
39 necessary to establish that.

40
41 MR REID: Much of the recent capital expenditure has been
42 directed at replacing degraded and old assets. You would
43 normally expect a trade off with lower operating
44 expenditure. That doesn't appear to have flowed through to
45 your future forecast of operating expenditure. Can you
46 give us an indication as to reasons why there?

47

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1 MR FREWEN: I think we'll be finding that the ongoing
2 operating costs of the treatment plant will be lower. As
3 Guy mentioned before, there are many other costs that are
4 also increasing, whether that's our materials costs, labour
5 costs, costs to comply with OH&S regulations, and so what
6 we are saving in one area is being consumed and other parts
7 of the area are increasing.
8
9 MR HUMPHREYS: It's also a very short period we're looking
10 at. Those sorts of operating and capital cost trade offs
11 tend to accrue over longer periods.
12
13 MR REID: The cost of water to the mine is linked to
14 movements in the CPI over the next three years. However,
15 you are proposing substantially higher increases for that
16 for other customers. How can we be sure that the different
17 customer classes are paying a fair share of their costs?
18
19 UNIDENTIFIED SPEAKER: Yes, too right.
20
21 MR HUMPHREYS: As I understand, those arrangements
22 would be negotiated by the New South Wales Government.
23 They are beyond our control, I'm afraid. As I said earlier, the
24 New South Wales Government has also heavily subsidised
25 the entire operation. I think that question might be better
26 directed to our owners than to ourselves.
27
28 MR WARNER: I have a couple more questions. I have one
29 question on operating costs. We would expect businesses to
30 actually pursue efficiency gains and productivity
31 improvements. What are you doing over the next three years
32 to actually reduce your operating costs?
33
34 MR HUMPHREYS: Ongoing, we're looking at ways to
35 improve the business, but one of the areas Travis is looking at
36 is substantially reviewing how we operate our business, the
37 way that we respond to emergency situations and the way we
38 actually do our maintenance programs. That is an ongoing
39 continuous improvement program and we're well aware that
40 with these price increases coming that it's going to be
41 even more important for us to deliver over the next three
42 years.
43
44 MR WARNER: I am fully aware that your submission
45 suggested an optimised depreciation replacement cost
46 methodology for valuing assets. The Tribunal normally uses
47 an economic valuation approach which looks at the cash

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1 generating capacity of the assets. What are your thoughts
2 about IPART establishing an asset base for you based on
3 that economic valuation approach?
4
5 MR FREWEN: I think our submission is quite clear about
6 our preference. We favour the ODRC, the optimised
7 depreciation replacement cost basis. We believe it is the
8 most transparent. It shows people exactly what the
9 replacement cost of those assets is and it fully takes
10 account of the massive capital expenditure that we're
11 making right now: the \$41 million for Mica Street and the
12 \$30 million for the refurbishment of the sewerage treatment
13 plant. That's why we favour it because it makes it crystal
14 clear to everyone what the assets are.
15
16 MR WARNER: You briefly touched on some of the things
17 you're trying to do to assist disadvantaged customers and
18 pensioners. Can you please tell me what sort of pensioner
19 rebate you actually grant and do you have proposals to
20 increase those in line with increases in your customer
21 bills?
22
23 MR CHICK: Could you say that again?
24
25 MR WARNER: Pensioner rebates. What is your value for the
26 pensioner rebate and what proposals do you have? Do you
27 have a proposal to increase those in line with increases in
28 customer bills? Do you have any?
29
30 MR FREWEN: I might invite Natalie, our pricing expert, to
31 answer that.
32
33 MS LINDSAY: Yes, we do have pensioner rebates. My
34 understanding is that they're half funded by Country Water
35 and the rest is funded by the New South Wales Government
36 and it in line with the electricity pensioner rebates that
37 are paid.
38
39 UNIDENTIFIED SPEAKER: Will it go up?
40
41 UNIDENTIFIED SPEAKER: They take more than what you
42 get out of it. Don't start on that.
43
44 MR FREWEN: Just recently I recall that the New South
45 Wales Government did increase pensioner rebates for
46 electricity and we'd lobby for that too and we would be
47 happy to join with you in lobbying the New South Wales

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1 Government.
2
3 UNIDENTIFIED SPEAKER: I asked if it's going to go up with
4 your prices.
5
6 MR FREWEN: The offer I'm making is that we'll join with
7 you to lobby the New South Wales Government at the
8 conclusion of this process to seek a higher pensioner
9 rebate.
10
11 MS KRIEGER: I just have one more question. Following on
12 from your comment on the existing arrangements with the
13 mining customers that you have, I understand that the
14 arrangement that was made was made by the government
15 and not by you, but just to see the relativities, what's the
16 size of the water use of the mines as compared to the
17 individual customers who are here today? What are the
18 relativities between the two in broad terms?
19
20 MR FREWEN: I'm going to have to defer to another expert.
21 Travis, do you want to answer this question?
22
23 MR NADGE: With respect to the mines, in terms of their
24 consumption, it's probably around 20 per cent. It varies
25 from year to year and it's treated and untreated and how
26 they use it changes. It's about 20 per cent of our total
27 consumption. It's also around about 20 per cent of the
28 total revenue.
29
30 UNIDENTIFIED SPEAKER: Is our water still metered?
31
32 MR NADGE: Yes.
33
34 UNIDENTIFIED SPEAKER: They're getting the same price
35 hike that everyone else is getting.
36
37 MR NADGE: No, they're under an agreement.
38
39 UNIDENTIFIED SPEAKER: As ratepayers we're getting a
40 price hike but because they have a deal with somebody else,
41 they don't: that's c....
42
43 MR NADGE: They made an agreement with the New South
44 Wales Government many years ago.
45
46 UNIDENTIFIED SPEAKER: Doesn't the water come from
47 here? Don't we have a choice where that water goes? It's our

1 water. We paid for it.
2
3 THE ACTING CHAIRMAN: There are a couple of people that
4 want to ask questions. I will take a couple of questions
5 and then we'll move on to the next presentation.
6
7 UNIDENTIFIED SPEAKER: I just want to know whether the
8 mines are going to have an increase or if we're supposed to
9 wear one. If we're supposed to wear an increase, okay,
10 will the mines wear an increase or are we just going to get
11 kicked in the guts again? It's a fair question.
12
13 THE ACTING CHAIRMAN: As I understand it, the mine bill
14 is determined by negotiations between the New South Wales
15 Government and the mine. It's not part of this process.
16
17 UNIDENTIFIED SPEAKER: Why are we talking to these
18 people for then? Why aren't we talking to the Government?
19
20 THE ACTING CHAIRMAN: The issue is what should
21 customers pay. I think what we'll want to do is work out
22 what the fair share of costs are of the customers and then it is
23 a question of what is a reasonable increase for people in
24 Broken Hill to be expected to pay, given the circumstances
25 of Broken Hill. I think that's the sort of process we'd go
26 through.
27
28 We wouldn't want to get into a situation where the
29 customers at Broken Hill are paying or subsidising the
30 mine. I don't think we're going to get into that
31 situation. I think the more relevant question is what's a
32 reasonable increase, if any, for the people of Broken Hill.
33 I would like to take a couple of questions. Come forward
34 and introduce yourself, please.
35
36 MR ALGATE: My name is Bob Algate. I have just two
37 questions, the first of which is could you tell me - the
38 IPART people - if the goose that booked this venue is going
39 to be a part of the decision-making process in terms of
40 water? If he or she is, the whole situation is flawed
41 right from the word go.
42
43 I think the more important question is - before you
44 answer that one - we've heard all the experts say how the
45 water is structured and what we're all attempting to
46 achieve and Country Energy's suggestion that they're not
47 attacking the 370 per cent, they're looking at either a

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1 10 per cent increase yearly or a 15 per cent or a
2 20 per cent. Assuming that IPART in their wisdom select
3 the median price of a 15 per cent increase, can you tell me
4 and some of the other people here how a single pensioner, a
5 single home-owner pensioner is going to accommodate those
6 costs ongoing when you consider that the compounding effect
7 over five years will double the price of water?
8

9 MR COX: Thank you for that. On the first question on the
10 venue, I'm afraid that we simply underestimated the degree
11 of interest there would be in this public forum.
12

13 UNIDENTIFIED SPEAKER: There are 20,000 b..... people in
14 town, not 200!
15

16 THE ACTING CHAIRMAN: All I can say is that's a lesson --
17

18 UNIDENTIFIED SPEAKER: We're not dummies altogether.
19

20 THE ACTING CHAIRMAN: On the second issue, which was
21 the price increase, I think we would accept that if there were
22 to be say a price increase of the order of 10 per cent a
23 year, that might well cause difficulties with pensioners
24 and the suggestion has been floated that there my be a
25 recommendation made about an increase in the pensioner
26 rebate. That's not our decision, that's a decision by
27 government, but obviously we'll draw to their attention our
28 assessment of the situation at Broken Hill. A couple more
29 questions, if I could. Yes, sir.
30

31 MR FENTON: I came here today and I was rather
32 apprehensive because what I'm worried about is I read in
33 the paper where they're \$40 million in the red for the
34 year. \$32 million --
35

36 THE ACTING CHAIRMAN: Can you introduce yourself, please?
37

38 MR FENTON: My name is Brian Fenton. I am a pensioner
39 and I'm worried about the present structure of the pricing.
40 There are things that appear to me to be totally
41 incongruous. I was just worried today that you people
42 would fold your arms and say, "The money's got to be paid
43 out, no matter what. We're going to increase it and that's
44 it," and I'm still worried about that.
45

46 What I really fear is our quality of life here in
47 Broken Hill. I feel that it's slipped. Our gardens cannot

1 survive. I deliver magazines around and I look over the
2 fence and I find dead lawns - pavers and all the rest of it
3 - and in this place it's very hot and we've been told that
4 a bit of vegetation around the house will drop the
5 temperature 6 to 8 per cent. We need a bit of vegetation
6 around here. We also need airconditioning. We don't want
7 concrete and pavers. We want a little bit of green.
8

9 This city has such a rainless existence. I put in a
10 water tank. Everybody else has done that sort of thing.
11 The biggest I could get for me was 2,700 litres. It holds
12 less than \$3 worth of water. When they forecast rain
13 I empty it out and put it on the garden. Six months later
14 it might fill up again. That's the way things are. We're
15 different here than the coastal areas. We need the
16 airconditioning and we need the vegetation to try to keep
17 things cool.
18

19 What I want to talk about is the way that you've gone
20 about the pricing. You've given us 400 litres and last
21 year you gave us a miserable 60 litres to cover the summer
22 and that equated I think to about \$100. This year - I'll
23 have a look - it's gone up to cover exactly that \$100, so
24 we got nothing.
25

26 What I need is 600 litres per annum. I get to 400 and
27 you get that exorbitant increase in the price which is a
28 bit ridiculous. We've got an extreme summer here, six
29 months of the year it covers, and is there anybody here
30 that would like to own up to what you classify as being
31 summer? I had to go on the internet and I had to look hard
32 for these figures because they're not generally available,
33 but here in Broken Hill to work out their pricing to give
34 us that miserable 600 litres, they classify summer as
35 1 December to 24 March.
36

37 (Laughter)
38

39 This is November. You walk outside and you've got
40 40 degrees of heat and you can't tell me we're not using
41 extra water for that. It's a little bit different to the
42 coast. We need a little bit of consideration on that fact.
43

44 Water is not really a problem here because the most concrete
45 thing that happened over the past years is we were
46 guaranteed an 18-month supply of water. People would know
47 all about that. We were guaranteed that. Whatever water

1 we use has to be sent down from up top where they're
2 withholding it from us. Incidentally, up top, there are
3 maps out at the present time saying that over the last
4 24 months they have had record rainfall in the catchment
5 area.
6
7 THE ACTING CHAIRMAN: Can I ask you to bring your
8 remarks to a close because we'll have a chance for general
9 comments at the end of the session. This really is a chance for
10 you to make comments to Country Water.
11
12 MR FENTON: What I'm asking for is to get a fair go.
13 I can't get my head above water with 600 litres. With the
14 way the summer is if you go outside and instead of people
15 being in offices getting free airconditioning, we're at
16 home, we're in this. What I want is a fair go. I want the
17 600 units at the normal price, that's \$1.05, and then the
18 price rise after that, because the way it goes up in price
19 is just absolutely horrendous.
20
21 You can look after this town. I go back to the 1930s,
22 I've been through the big drought in 1940, which I think
23 was worse than this, but anyway, I want this town to be a
24 little bit greener and a little bit cooler and the
25 pensioners in it looked after. Thank you very much.
26
27 (Applause)
28
29
30
31
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43
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1 BROKEN HILL CITY COUNCIL
2
3 THE ACTING CHAIRMAN: I would now like to move on to
4 the next segment which is the presentation by Broken Hill City
5 Council. We would like to thank Country Energy and their
6 representatives for their presentation and for answering
7 questions. Thank you for that. We would like to invite
8 now the representatives of Broken Hill City Council to come
9 forward, introduce themselves and make their presentation.
10
11 MR ZAKNICH: Good morning, everyone, and thank you to
12 IPART for the opportunity to present on behalf of
13 Broken Hill City Council.
14
15 THE ACTING CHAIRMAN: Can you introduce yourself, please?
16
17 MR ZAKNICH: I am Frank Zaknich, General Manager of the
18 Broken Hill City Council. Again, welcome to Broken Hill
19 City. I wanted to initially for the benefit of IPART cover
20 off on some issues about Broken Hill and then go into some
21 detail about the council's submission.
22
23 As has already been indicated, the council has a
24 vision for the community and it is about its identity, its
25 leadership and sustainable management. Water is very much
26 a part of that and we've talked already this morning about
27 the Broken Hill lifestyle, about retaining that, about
28 retaining the livability of the city as a regional centre.
29
30 The city profile, many of you would be aware of this
31 but for the benefit of the hearing, the population is still
32 around the 20,000 mark. The population decline that we've
33 experienced over the last three decades is stabilising.
34 There are employment projections with industry growth.
35 We have an increasing aged and indigenous population.
36 That's a key issue as part of the council's submission.
37
38 The council area is that area that is bounded by the
39 city boundaries. We've got around the same number of
40 rateable properties, a bit over 10,000, our land value is
41 around \$282 million and we've got fantastic resources here
42 that are historically and for the future very important to
43 the city: mining, of course, tourism, our heritage, our
44 transport and as a regional service centre and our arts and
45 culture and film community and more recently the renewable
46 energy resources.
47

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1 There are some key demographics that really the
2 hearing needs to be aware of. Our current unemployment
3 rate is around 7.6 per cent. That's based upon the most
4 recent figures that are available. We are an ageing
5 community. Over 18 per cent of our community is aged 65 or
6 over and that's projected to increase to 30 per cent by the
7 year 2030. We have an increasing indigenous community,
8 about 6 per cent on the last ABS figures.

9
10 An important factor to note is that our median weekly
11 household income is about 60 per cent of the national
12 median. It is about \$600 a week as compared to the
13 national median of about \$1,000 a week. That just gives
14 you a perspective in terms of the median household income
15 and the sort of income that it generates in the community.

16
17 Development applications over recent years have been
18 hovering around the 500 to 600 mark. Obviously, there's
19 been a decline this financial year for various reasons, the
20 global financial crisis, but also the value of developments
21 around the \$20 million mark this year to October are around
22 \$15 million.

23
24 What is the council's profile? We provide a diverse
25 range of services. We have over 200 permanent employees.
26 Our annual budget is around \$28 million and our asset base
27 is around \$173 million and that's based on those fair-value
28 principles that have been introduced recently. A bit like
29 our community, our infrastructure is ageing as well.

30
31 UNIDENTIFIED SPEAKER: You've had more rises since
32 you've been on that job than anywhere else in the world.

33
34 MR ZAKNICH: Okay. Yes, we've got some key goal areas.
35 One of those is having a safe and sustainable environment
36 so as to ensure that Broken Hill has a secure and
37 affordable water supply and to reduce the environmental
38 impact of the council's energy and water use.

39
40 Our total revenue is there. We've been talking about
41 money and income. That's what those projections are. The
42 budget is around \$28 million at the moment, including
43 depreciation. There's an operating deficit of around
44 \$3.7 million this financial year.

45
46 Where do those dollars come from? About 43 per cent
47 come from rates and charges and the balance from capital

1 grants from other levels of government, interest on
2 investments, fees and charges and grants. Where are those
3 dollars spent? About 22 per cent of them go to capital
4 works and the rest across of range of activities, roads,
5 parks, community services, waste services, financial
6 services, caravan parks, tourism, as detailed there.

7
8 Just by comparison, the council's water costs are
9 upwards now of around \$600,000 per annum and that's
10 increased gradually over the last three years,
11 notwithstanding that water consumption has actually
12 reduced.

13
14 What are the community needs for Broken Hill? As a
15 community and a council we're after an efficient, effective
16 and affordable water and sewerage service. It is an
17 essential service. Country Energy or Country Water is in
18 fact a monopoly government enterprise. They have no
19 competition so the services are inelastic by nature. That
20 means they're not discretionary. We haven't got a choice
21 whether we use water or sewer because it's going to affect
22 our health and wellbeing. There is no choice in terms of
23 the actual supply.

24
25 In the context of Broken Hill's geographic location,
26 we've heard already today we have a low rainfall. We have
27 a declining to marginal stable population. Obviously,
28 there is an environmental lead management issue in
29 Broken Hill. Water is a key issue. The greening of the
30 city and its environs is something that we encourage.
31 Maintenance of parks, ovals and reserves is an ongoing
32 issue as a result. The community water audit that we did a
33 couple of years ago is being implemented. There is a whole
34 range of activities that we've undertaken to do with
35 underground irrigation and waterless facilities in public
36 toilets.

37
38 We have talked already about nature strips and some of
39 the comments that greening has been reduced and in major
40 storm events that means that a lot of those nature strips
41 and footpaths areas are scoured by the rain when it does
42 fall. All these things are critical and important for us
43 to have a liveable regional city.

44
45 Part of the council's submission was about maximum
46 pricing. I know Country Energy has said this morning that
47 it won't be 370 per cent. What we've done is on the basis

1 of the information in the report. Obviously, the revenue
2 projection is \$55 million and that's up from \$15 million.
3 Hence, there is a 300 per cent proposed increase in revenue
4 generation. The council water costs on that basis would
5 increase up to \$1.7 million annually and that's up from the
6 \$460,000 currently. In the council's view that is
7 unsustainable. We question whether this is an ambit claim
8 and if it is, it needs to be revisited and justified.

9
10 In terms of maximum pricing, bearing in mind that
11 IPART will set a maximum price, council favours a revenue
12 cap in addition to a capping of the annual increase by CPI
13 minus whatever that figure is on the previous year. That
14 is not dissimilar to the way council rate pegging operates
15 at present where it is between a 3 to 4 per cent increase
16 per year.

17
18 UNIDENTIFIED SPEAKER: Frank, can you see our land
19 rates going up because of this?

20
21 MR ZAKNICH: Yes, I think it has a flow-on effect.
22 Expenditure projections in the report - the council
23 acknowledges that there is a significant capital works
24 program under way. The capex and the operating and
25 maintenance expenditure will be significantly higher than
26 in previous years. From council's point of view, the
27 expectation is that that increased capital expenditure
28 would actually generate lower operating and maintenance
29 costs over time. Even though there's a three-year window
30 there, over the next 10 to 15 years the operating costs
31 should actually reduce because there should be less
32 maintenance required on those newer assets.

33
34 We also made a point about the weighted average cost
35 of capital and we say that seems excessive for a monopoly
36 provider and for the nature of the service. Country Energy
37 and Country Water have no competition so their rate of
38 return on their investments doesn't need to be that high,
39 it could actually be a lot lower, and that obviously
40 affects the price that's charged accordingly.

41
42 We have asked for clarification of depreciation on the
43 assets that may have been transferred or contributed to
44 Country Water from their ancestor organisations, so any of
45 the assets that have been brought over from the old Broken
46 Hill Water Board or Inland Energy and Water and Energy,
47 whether depreciation should be included on those assets

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1 when they were essentially gifted to Country Water. Any of
2 those returns on the contributor's assets would actually be
3 a windfall profit and we need to clarify that to ensure all
4 assets are actually required to operate the business and
5 are fully utilised.

6
7 There has been a question asked about the length of
8 the determination period and in the council's view three
9 years seems appropriate. One special point, though, we
10 need to mention is the impact of the Darling River water
11 savings projects on the outcome of the review on
12 Broken Hill's water security and quality and efficiency
13 options for the supply. Some of those recommendations may
14 indeed suggest there may be other ways to deliver or
15 supply the water to Broken Hill. That was a point that was
16 made earlier about who's actually paying the cost of
17 delivery to get it to this point and whether the community
18 should continue to contribute to that or whether it should
19 be an ongoing subsidy. We are suggesting there should be a
20 further IPART review required at that time or deferring
21 some of the components of the current review until that
22 study is complete.

23
24 This is a key issue, the community's ability to pay.

25 As you've seen from the demographics, we have a range of
26 low-income groups and disadvantaged groups in the city, so
27 ability to pay is a critical issue. There will be
28 potentially then a greater burden on the larger users to
29 offset that cost and that's unsustainable. If the larger
30 users are being charged more - say the council - how do we
31 pass that cost on? Are we able to pass that cost on to the
32 other ratepayers? That was your question.

33
34 UNIDENTIFIED SPEAKER: Yes. Thank you.

35
36 MR ZAKNICH: We have difficulty in doing that, in passing
37 it on, because it is the same community base, isn't it. As
38 we've said in our submission, there is a strong case for
39 the New South Wales Government to actually continue with
40 some form of transparent community subsidy. We want to
41 know what that subsidy is, everyone needs to be aware of
42 it, but it needs to continue to be in place. Thank you.
43 I am happy to take questions from the Tribunal.

44
45 THE ACTING CHAIRMAN: Thank you very much. We will
46 start off with questions from the Secretariat, Colin and Richard.

47

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1 MR REID: Thank you very much for your presentation. You
2 have raised a valid issue of subsidies and contributed
3 assets, gifted assets. Country Energy in their submission
4 have indicated that they've excluded those from their
5 proposed regulatory asset base. Do you have any additional
6 information on that?
7

8 MR ZAKNICH: We don't. It would be a matter of reviewing
9 the previous actions in terms of transfer from the
10 Water Board to Inland Energy and then to Country Energy.
11 Whether they're documents that are available or not I'm not
12 sure about.
13

14 MR REID: You have also raised the issue that
15 Country Energy have made no substantial provision for
16 disposals. I'm just wondering whether you have any
17 additional information on that one.
18

19 MR ZAKNICH: No. The reason for that question was that
20 there should only be capital expenditure or allocation for
21 depreciation on assets that are utilised. If there are
22 assets that aren't utilised or have been replaced, they
23 should be disposed of accordingly and then accounted for in
24 the depreciation schedule.
25

26 MR WARNER: Just further clarifying that contributed
27 assets question, is it your view that any assets
28 transferred from the old Broken Hill Water Board or
29 Inland Energy should not earn a return?
30

31 MR ZAKNICH: That's right, that's our view, on the basis
32 that they were gifted essentially and then any return on
33 that investment is clearly a windfall profit for the
34 organisation.
35

36 MR WARNER: The only other question I have is it is
37 sometimes suggested that Broken Hill has unique
38 environmental circumstances that require use of water for
39 outdoor purposes such as lead contamination. Do you have
40 any comments to make in relation to that?
41

42 MR ZAKNICH: Yes, we would support that. It's part of our
43 submission. Geographical location, the environmental lead
44 issue, the livability of the city, the greening of the
45 city, making us an attractive and friendly place to live is
46 a key part of where the city is heading and where it wants
47 to go. It's the only way we're really going to retain and

1 attract residents to the city for the future.
2

3 UNIDENTIFIED SPEAKER: And a safe one.
4

5 THE ACTING CHAIRMAN: If there are a couple of questions
6 specifically to Broken Hill City Council, bearing in mind
7 that they're general questions, I'll take a couple.
8 I believe you want to ask one.
9

10 MS CLARK: Frank, do you have any idea at this point about
11 the maximum percentage increase that the council could bear
12 without a loss of service to ratepayers or incurring an
13 increase in rates?
14

15 MR ZAKNICH: With respect to water pricing?
16

17 MS CLARK: Yes.
18

19 MR ZAKNICH: We have argued that the maximum should
20 be similar to the rate-picking type increases, so in the 3 to
21 4 per cent range, and then revisited annually so that the
22 increase each year is also capped by some formula and
23 that's a formula that's applied to local government across
24 the state, so it seems apparent it should be applied in
25 this case.
26

27 MS CLARK: Three to 4 per cent?
28

29 MR ZAKNICH: Yes.
30

31 MS KRIEGER: Could I ask a follow-up question on that?
32 You said before that water costs to council are about
33 \$600,000 a year. To put that in perspective, what's your
34 total expenditure each year? In other words, roughly what
35 proportion is water?
36

37 MR ZAKNICH: \$28 million is our annual budget, so
38 \$600,000 is a percentage of that.
39

40 UNIDENTIFIED SPEAKER: Last year there was talk about
41 removing some of the parks in Broken Hill and no more was
42 said about it. It was to cut costs and everything. Is
43 that still in the plan?
44

45 MR ZAKNICH: The council has adopted a plan, but they'll
46 be dealt with on an individual basis.
47

1 UNIDENTIFIED SPEAKER: The higher the water goes, the
2 more the parks go.
3
4 MR ZAKNICH: This is the point we made in the submission.
5 Even if we were to reduce the number of parks, we've still
6 got to maintain what we've got. Again, that's a cost to
7 the community.
8
9 UNIDENTIFIED SPEAKER: Just on that, Frank, one of the
10 local parks was watered in the middle of the day on a
11 water-free day. In your presentation you said that you
12 were aiming to conserve water, but that's a pretty simple
13 example of a non-dedicated approach to water conservation.
14
15 MR ZAKNICH: It's a perfect example of how not to conserve
16 water, I agree, and that's one we're working on. For the
17 future it's about underground irrigation so that we don't
18 have sprinklers operating in the middle of the day.
19
20 THE ACTING CHAIRMAN: One last question at the back,
21 please.
22
23 MR TUCKER: Alan Tucker. If the council has to reduce
24 watering and us as ratepayers have to reduce watering at
25 our own homes because of the increase that has been
26 predicted, will that increase the lead dust and the lead
27 danger to people in Broken Hill?
28
29 MR ZAKNICH: One of our submissions is that the
30 management of environmental lead dust is a critical issue for
31 Broken Hill. Therefore, water should be priced
32 accordingly: that's the submission.
33
34 MR TUCKER: If we have to pay more for water and if we
35 don't water our gardens, it will increase the lead dust.
36
37 MR ZAKNICH: That's part of our submission, yes.
38
39 MR TUCKER: Thank you.
40
41 THE ACTING CHAIRMAN: Thank you very much for the
42 presentation and for answering questions. We now have a
43 presentation from Silverton Village Committee. Would their
44 representatives please come forward and introduce
45 themselves and we'll take it from there.
46
47

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1 SILVERTON VILLAGE COMMITTEE
2
3 MS MURRAY: Good morning, everyone. My name is
4 Helen Murray. I am the secretary of the Silverton Village
5 Committee. Unfortunately, I don't have a nice presentation
6 like the council did, so please bear with me while I read
7 what our problems are.
8
9 Just bear in mind, please, if you could, that
10 Country Water pointed out this morning that their main aim
11 is providing safe and reliable water. Firstly, thank you
12 to IPART for the opportunity to do this. It is not
13 something that we often have happen in Broken Hill and
14 surrounding areas, so we do appreciate you being here and
15 listening to our concerns.
16
17 It is vitally important to the residents and business
18 operators in Silverton that our concerns are heard.
19 Silverton is located in an unincorporated area in New South
20 Wales approximately 25 kilometres from Broken Hill and is
21 managed by the Silverton Village Committee Incorporated.
22 The Committee comprises three elected local members, one
23 representative from the Department of Local Government and
24 one representative from the Land and Property Management
25 Authority.
26
27 The township has a current population of 51 and
28 attracts more than 120,000 visitors per year. Silverton
29 was surveyed in 1883 and has never had a treated water
30 supply. In this the 21st century Silverton's water supply
31 is chlorinated but unfiltered and unsuitable for human
32 consumption. According to documentation provided over the
33 years by the various water supply managers, we should not
34 even bathe in our water and it can at times contain
35 organisms that can cause death.
36
37 It is difficult to know where to start to get our
38 point across because we have all been here before. In 2003
39 the Silverton Village Committee was invited to take part in
40 the Water 2002-2003 Roundtable Series. This series of
41 meetings was called to identify the problems associated
42 with providing a water supply to Broken Hill and
43 surrounding areas and to find solutions to these problems.
44 The roundtables identified that Australian Inland revenue
45 was approximately 40 per cent lower than what the business
46 needed to cover costs and ensure ongoing replacement of the
47 infrastructure.

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1
2 Australian Inland told us they had been instructed by
3 the State Government to follow a policy called best
4 practice pricing implemented under the National Competition
5 Policy. This was supposed to ensure effective management
6 of water supply and sewerage businesses. Of course, all
7 this meant was we had to have a price rise. Why? To pay
8 for a filtration and pipeline replacement program over the
9 next 10 years, bearing in mind this was back in 2003. This
10 included \$8 million for a new filtration plant and
11 \$12 million for upgrading and replacing pipelines. A
12 quarter of our bill was to be spent on these improvements.
13
14 Here we are in 2009 and nothing much has changed.
15 Yes, Broken Hill almost has a new water filtration plant.
16 No work has been done on pipe replacement in the town.
17 Our accounts have risen considerably since 2003. In July 2009
18 we incurred another price rise when we were informed on our
19 account that the price rise will:
20
21 ... help fund almost \$20 million in network
22 investment programs over the next year.
23 These programs will improve sewerage
24 treatment with infrastructure and will
25 maintain water supply reliability and
26 quality.
27
28 Recent correspondence with Country Water regarding
29 Silverton's situation informed the village committee that:
30
31 Country Water has invested around \$50,000 in
32 capital over the last four years for the
33 chlorination plant in order to make
34 Silverton's water safer, as well as over
35 \$100,000 in other operating costs for
36 10 years ... Current water charges reflect
37 that capital investment and ongoing
38 operational costs.
39
40 The letter goes on to say that:
41
42 In regards to a water treatment plant for
43 the Silverton community, it must be
44 understood that any investment into a
45 future water treatment plant for Silverton
46 would require significant financial
47 investment, much of which would be borne by

1 the residents and businesses of Silverton.
2 This would also include the need to replace
3 and install additional water reticulation
4 mains around the Silverton village area,
5 adding significantly to the cost of the
6 capital investments.
7
8 If Broken Hill, Menindee, Sunset Strip and Silverton
9 are all customers of Country Energy and a portion of all
10 our accounts is being allocated to improving
11 infrastructure, all customers should be treated equally.
12
13 There is also a degree of confusion as to who is
14 responsible for the maintenance of pipelines in Silverton.
15 In the same correspondence from Country Water it was
16 explained that:
17
18 The water mains you refer to in your letter
19 are not the responsibility of
20 Country Water. PVC pipes were installed
21 from the main meter to properties as a
22 courtesy service to Silverton's residents
23 several years ago. The service from the
24 meter to the customer's property are the
25 responsibility of Silverton's residents.
26
27 Many of these pipelines between the meter and the
28 property are hundreds of metres long. This can make
29 finding or being aware of a leak quite difficult and very
30 costly. Whilst Silverton residents appreciate the efforts
31 of Country Water to supply water to the town, they often
32 have to put up with foul smelling and very dirty water.
33 With the recent heat in the last week our water is already
34 taking on a distinct rotting vegetation smell: it's not
35 nice. This is most often the case when there are low
36 levels of water in the reservoir or inflows into the
37 reservoir which stir up the sediment in the water. These
38 situations can last for days. It doesn't make washing very
39 good.
40
41 The largest wind farm in the Southern Hemisphere is
42 about to be built in the hills of Silverton and it is
43 reasonable to assume that the development will attract much
44 larger numbers of tourists to Silverton. If we are to
45 attract and keep these visitors and benefit from this
46 development, we need a greatly improved water supply. It
47 is an unacceptable situation to have visitors arrive to

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1 find signs on every tap saying that our water is unsuitable
2 for human consumption.
3
4 We appreciate that all improvements have to be paid
5 for, but we keep going over the same ground without
6 producing a workable solution. Customers cannot keep
7 putting their hands in their pockets when their incomes are
8 not rising at the same rate as the water costs. Food,
9 fuel, electricity and other necessities of life are
10 increasing in cost and families have to draw the line
11 somewhere. As was the case in previous years, if another
12 price rise is incurred, especially one of the magnitude
13 being considered here, people will let their gardens die.
14 Businesses relying on heavier water consumption will be
15 financially affected and our community will suffer.
16
17 Customers in the whole region are already practising
18 water conservation measures. The village of Silverton is
19 not a ghost town. It is a part of this outback region's
20 history and will shortly become the recipient to a massive
21 green development and is developing strategies to manage
22 the impact of this development.
23
24 We are working towards a sustainable environment which
25 provides 21st century facilities, yet retaining the
26 character and essence which is Silverton. It is not a
27 question of our ability to pay but the responsibility of
28 Country Water to provide the same quality service to all
29 customers. Thank you.
30
31 (Applause)
32
33 THE ACTING CHAIRMAN: Thank you for the submission.
34 We will start off with questions from the Secretariat.
35
36 MR REID: Thank you very much for your presentation.
37 Given the difference in services provided to Silverton
38 compared to Broken Hill, how do your charges compare?
39
40 MS MURRAY: I'm not really sure because I don't own
41 property in Broken Hill, but from what people are saying,
42 we're paying not much less than Broken Hill.
43
44 MR WARNER: I have just a point of clarification on
45 something you said in your talk. Did I hear correctly that
46 you said you had to pay for water treatment several years
47 ago even though you don't get treated water; is that

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1 correct?
2
3 MS MURRAY: It was actually printed on the front of the
4 accounts which I presume is the same basic account that is
5 sent to everyone. It said on there that a quarter of our
6 bill would go towards a water treatment plant and
7 infrastructure maintenance and upgrades.
8
9 MR WARNER: I understand that the drinking water you get
10 is either tankered in or that you're reliant on rainwater
11 or bottled water. What proportion of your total water use
12 or potable water use is that?
13
14 MS MURRAY: That's hard to say. The village community
15 doesn't try to collect that sort of data. We're not at
16 that stage. We're not a full-blown council as such and we
17 don't have access to that information, but certainly every
18 household that I'm aware of has its own rainwater tanks and
19 local businesses are certainly serving bottled water.
20
21 MR WARNER: But you use the water from Country Water
22 for washing and that sort of thing.
23
24 MS MURRAY: Yes, for washing. Even though they advise us
25 not to use it for showering, there's not enough tank water
26 to use for showers, so most of us do use Country Water's
27 water for showers.
28
29 MR WARNER: Thank you very much.
30
31 THE ACTING CHAIRMAN: If there are specific questions of
32 Silverton Village Committee, I'll take them now.
33
34 MR WATSON: Could you tell me where is the water going
35 to come from the massive 600 foundations for the wind
36 farms? How are they going to get the water for that that's
37 at Silverton?
38
39 MS MURRAY: For those that couldn't hear, the question was
40 where is the water going to come from for the turbines that
41 are going to be built on the hills for the wind farm.
42 I think you'd probably have to ask Country Water that one.
43
44 UNIDENTIFIED SPEAKER: Does anyone else have a question?
45
46 MR COX: Thank you very much for your submissions on
47 Silverton.

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1
2 (Applause)

3
4 GENERAL QUESTIONS AND CLOSING REMARKS

5
6 THE ACTING CHAIRMAN: We now come to the session
7 where people in the audience have a chance to make comments
8 and suggestions. If you have a comment, obviously we'll note
9 it; if you have a question, obviously we will try to answer
10 it.

11
12 I understand that Mr Black has an appointment, so we
13 might take his question or statement first, and then we'll
14 try to get through as many people as we can in the
15 audience. Could you make your remarks fairly concise. It
16 will help us to fit in as many people as possible.

17
18 MR BLACK: Thank you, Mr Acting Chairman, and to your
19 colleagues. At the outset let me say that Country Energy
20 in Broken Hill is held in very good favour indeed, as
21 regards comments earlier, as evidenced indeed on this
22 morning's ABC where the comment was made that we have a
23 very low number of complaints about the activities of
24 Country Energy in Broken Hill, much lower than is recorded
25 in other areas of the state.

26
27 Let me also say that water in Broken Hill has always
28 been controversial. It has been controversial for very
29 good reason. Out at our cemetery we have 300 graves, many
30 of them young, of people that died of typhoid in the early
31 days. For the first 70 years water was much dearer in real
32 terms than it is today. Around the streets of Broken Hill
33 we had water carts. People did not have gardens. Water
34 was bought by the bucket. Those days are thankfully long
35 gone.

36
37 I come to the question of the subsidy. I want to go
38 back to the days towards the end of the reign of
39 Country Energy's predecessor, Inland Energy. Two things
40 had happened. One was a proposal by the then mayor,
41 Ron Page, to take over the supply of water, the control of
42 water in Broken Hill. Our local newspaper had articles
43 therein to the effect that he believed that he could do a
44 better job than Australian Inland.

45
46 A meeting was held in Sydney - I was present at that
47 meeting - with Frank Sartor, the then Minister for State

1 Water. Frank Sartor asked whether that could be put in
2 writing. There were reasons for that because we had within
3 the parliament an opposition that had a waste watch that
4 was critical of subsidies in general. We were asked to
5 make a case why Broken Hill should be different to any
6 other shire which operates its own water undertaking on a
7 no-profit/no-loss basis. Every other shire in New South
8 Wales does that. There is one exception only, Cobar, that
9 has its own pipeline authority. That was of interest to
10 Frank Sartor because if Broken Hill was to operate its own
11 show, the question of a subsidy would not arise.

12
13 A second meeting took place, again in Frank Sartor's
14 office, this time with Michael Egan, the then Treasurer.
15 There had been a proposal and a serious proposal, whether
16 it was from initiated by Inland Energy or not is beside the
17 point, to eliminate the subsidies to Broken Hill. I argued
18 against it and argued against it very strongly, so the
19 state subsidy - which should have been quantified by the
20 speakers today - is still in place.

21
22 We hear lately about the income raised through sales
23 from Country Energy, but these are the figures. The
24 subsidy in 2006-2007 was \$2.039 million. The subsidy in
25 the following year was \$1.682 million. The subsidy in the
26 year just concluded was \$2.253 million and the forecast
27 subsidy for next year is \$1.482 million. These figures do
28 not include other subsidies derived internally from
29 Country Energy.

30
31 I would ask people going into the city council a
32 simple question on this matter. Why should electricity
33 consumers in other local government areas subsidise the
34 water supply of Broken Hill? I'll give you the answer:
35 because we're different. We're not on a river. We have a
36 pipeline. We have extraordinary additional costs. This
37 has been our argument for many years and it's been a
38 passionate argument. It has been an argument that has been
39 broadly adopted and endorsed by the community.

40
41 With respect to the mines, let me say the question was
42 asked about how much they pay. I was visited here in
43 Broken Hill by a representative from Perilya. Cast your
44 mind back. There were two offers - one was from CBH -
45 looking at the whole scene of Pasmaenco. There was a whole
46 series of meetings with Perilya and CBH about these
47 matters. The question of water was raised.

1
2 At one stage there was a serious proposal for Perilya
3 that it should investigate recycling its own water, up to
4 and including putting in a desal plant or something of a
5 similar nature. That would, if it was going to be adopted,
6 blow out of the water, whether we were paid the \$2 million
7 subsidy or not, anything reasonable for the people of
8 Broken Hill, in terms that the people of Broken Hill would
9 be left wearing the entire cost. We don't want the mining
10 company to go into alternative methods of supply
11 irrespective of Country Energy.
12
13 The next thing I have to say with respect to the
14 subsidies is that we are getting smaller. I believe that
15 today's figure is 19,000 based upon the 440 that were
16 sacked from the Perilya workforce last year, not the 20,000
17 that was put up by the City Council today. That 20,000
18 existed last year. It's not that this year. Have a look
19 around town at the number of houses up for sale and the
20 number of people who have left. Probably a greater
21 indication is the enrolment in our schools. The real
22 figure today is 19,000.
23
24 I would anticipate that figure stabilising at 18,000
25 in the very near future: 18,000 to cover a base cost which
26 is established. Immaterial of whether you have 18,000
27 consumers or if you go back to 1989, 28,600 was the
28 population then, we've lost about 10,000 people.
29
30 The pipeline's still there and the cost of operating
31 the pipeline still has to be left by those who remain.
32 We at Broken Hill have an additional major problem with the
33 subsidy because what's going to happen to it down the
34 track? We have had an announcement by Perilya. They
35 expect a mine life of 10 years. It is unrealistic to
36 expect mining to continue forever in Broken Hill. It is
37 not going to happen. That final lode is a finite resource.
38
39 We look at it in these terms. This generation is
40 18,000 and by the time we're all 20 years older I'm going
41 to speculate that the population will be down to 14,000.
42 This is hard headed. Have a look around. It's not that we
43 don't like Broken Hill. We all love it. That's why we
44 live here. That's why people like me will stay here and
45 die here, I've got no intention of leaving the place, but
46 others in search of a job, that's the general reason, or in
47 search of an education, are leaving town. You've only got

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1 to look at the last figures that came out that Frank
2 referred to. We have in round figures 500 houses in
3 Broken Hill paying water rates out there with one lady in
4 it, two or more bedrooms and nobody else. These are people
5 who have lost their husbands and their children have moved
6 away. Our average age is currently six years older than
7 the state average. That ought to be taken into
8 consideration.
9
10 Can I finally put the view that IPART has got to have
11 a say, if you like, in what the subsidies for Broken Hill
12 should be. These are political matters. Nobody in IPART
13 could go to the Treasury and say, "You've got to give
14 Broken Hill an extra \$2 million in terms of the subsidy to
15 keep the price of water down." That's not IPART's role.
16 I would welcome the support of IPART in doing whatever it
17 can to ensure that both the government and the opposition -
18 and the opposition - sign on to the continued subsidy,
19 "subsidies" plural, for Broken Hill, because if those
20 subsidies are cut, any decision or recommendation from
21 IPART to be decided upon by the government of the day will
22 be simply non-existent. It won't happen. We have to keep
23 those subsidies. Without them Broken Hill will be
24 unliveable. Thank you.
25

26 (Applause)

27
28 THE ACTING CHAIRMAN: Thank you very much for that
29 comment. We would like to now get a number of people to
30 come and give their views. Perhaps the best thing to do is
31 come up to the front, we will give you a microphone,
32 introduce yourself and you can make your suggestions.
33

34 MR WILLIAMS: Thank you. I am John Williams. I am the
35 Member for Murray-Darling. I would just like to put a few
36 comments on the record regarding the history of the
37 infrastructure that we looked at as far as the asset value
38 is concerned.
39

40 If we go back to the time when we put that pipeline
41 through from Menindee, that was a time when the mining
42 companies really needed a good supply of water. The
43 State Government really wanted the mining companies to
44 continue because they were drawing huge royalties out of
45 them, so they did a deal with the mining companies and went
46 into what we now find was a devastating arrangement.
47

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1 During that process the mining companies topped up or
2 deficit funded the Water Board and consequently there were
3 no reserves put aside for what we're seeing here today, the
4 sort of renewal of assets that's absolutely essential, no
5 reserve at all, they excluded from that, and that was
6 pretty much a deal that they had done between the
7 State Government of the day. The State Government then
8 needs to recognise the fact that they were now putting it
9 back on the people, these people here, to do the heavy
10 lifting. I think that's not a reasonable basis to assume
11 your cost recovery.

12
13 The other aspect is if we're looking for a model for
14 the water supply for Broken Hill today, it would be quite
15 different. We might have probably put an additional
16 reservoir on. There was a suggestion that Umberumberka,
17 alongside that there was another valley. They could have
18 incorporated that. As we know, that is a problem within
19 itself. We don't know when we're going to fill those
20 reservoirs. Generally, history has suggested that a
21 community with 10,500 consumers or ratepayers could have
22 well supported that water supply. If you look at the
23 megalitre rate of usage amongst the community, you've got
24 nearly two years supply in those storages if they're full.

25
26 The other thing that has happened in the meantime is
27 that they've built a pipeline from the Murray River to
28 supplement the removal of certain levies on the anabranh
29 to allow the anabranh to run through. We could have
30 easily incorporated a pipeline here for us to have
31 something to supply the community in a state of emergency.

32
33 What we are seeing is \$300 million worth of assets.
34 What do we really need? What is a realistic amount?
35 We have built \$300 million in assets to supply four working
36 mines and a small community. What we're seeing today is
37 that we need a population of about 60,000 to support it.
38 Thank you.

39
40 (Applause)

41
42 THE ACTING CHAIRMAN: Thank you.

43
44 MR EDWARDS: My name is Roger Edwards. I have been a
45 citizen or resident of Broken Hill for 62 years. I spent
46 27 years as an employee of the Broken Hill Water Board and
47 concluded my career there as president, as many of you will

1 remember.

2
3 I would just like to touch on two key points, I won't
4 take much time, but before I do I'd just like to say to the
5 Tribunal that the average person is at something of a
6 disadvantage in terms of putting any sort of submission in,
7 firstly, because they don't have the capability. I myself
8 have no staff, I have no panel of experts and in fact no
9 access to a lot of the information which from the
10 submissions is stated to be confidential or in other words
11 secret.

12
13 A quick word on this graph which was alluded to
14 earlier. We were told that Country Water had no intentions
15 of moving to this point. The impression one gains from
16 reading their submission is that that is not the case.
17 They do want the Tribunal to basically endorse that as the
18 building blocks and as somebody I think earlier mentioned,
19 even though they're talking about a transitional arrangement,
20 we would be very concerned about what happens
21 in the next three-year period and the one after that.

22
23 Having said that, I come to my two principal concerns,
24 the first of which is - and I'll read these so that I don't
25 get off the track and take up too much of your time - the
26 asset base and this is the most crucial part I believe of
27 Country Energy's submission and it is difficult for anyone
28 to comment in detail because the information is contained
29 in a confidential report not available to us, only to the
30 Tribunal.

31
32 From my own knowledge of the water and sewerage
33 undertaking, I believe the asset base and the approach to
34 determining prices contained in Country Energy's submission
35 to be very seriously flawed, resulting in grossly
36 overstated revenue requirement building blocks.

37
38 Just to quote quickly from a couple of things in the
39 IPART issues paper regarding the cost based approach, this
40 is in section 3.1.2, within that there are three generally
41 recognised approaches: a cash based approach, an asset
42 maintenance approach or a rate of return approach. I note
43 that Country Energy favours the rate of return approach
44 which is also I believe the most expensive to customers.

45
46 In the IPART issues paper, regarding the cash based
47 approach it says, in part, that:

1
2 This also recoups sufficient revenue to
3 cover the costs of principal and interest
4 repayments on funds borrowed to undertake
5 capital programs. In some cases additional
6 funds might be collected and set aside in
7 reserves to provide for the ultimate
8 replacement and refurbishment of assets.
9
10 The asset maintenance approach can take something
11 similar but a little more. The rate of return approach,
12 the cost of capital or a rate of return is intended to not
13 only defray the cost of interest on any debt held, but also
14 to provide a fair return on the equity the owners of the
15 business have invested in it. The owner I believe is the
16 New South Wales Government. I dispute that they have
17 actually invested much in the assets. We have paid for the
18 assets. On that basis, I would dispute the need to gain
19 such a rate of return.
20
21 Referring to the Broken Hill Water Board annual report
22 for 1996, the interest on loans for both water and sewerage
23 was \$848,000. The traditional approach of funding capital
24 works was long-term loans with the Commonwealth Bank -
25 40-year, 25-year loans, that sort of thing - and they have
26 all been paid out, so there's no ongoing debt. In
27 subsequent years there were further smaller loans taken
28 out. I believe at this stage they would also have been
29 paid out.
30
31 In later years also we obtained loans from
32 Treasury Corporation or works were funded from the reserve
33 for the renewal of assets. Interest on loans in 1997 was
34 \$177,000 in sewerage fund. You can see these are much
35 lower figures than are being talked about. In water fund
36 there was a similar situation, but the following variation
37 came in around 1980 or thereabouts. Because of the deficit
38 funding arrangement with the mining companies and the end
39 of the line of lode here was approaching, individual mines
40 were concerned that if we entered into long-term debt in
41 water fund, a mine might be forced to close due to running
42 out of ore and that would leave the remaining mine with an
43 increased burden. These loans often were short term:
44 seven years. Some of those would have been well and truly
45 paid out as well.
46
47 Other works of renewal, such as ongoing water

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1 reticulation, mains renewal programs and renewing a large
2 section of the Umberumberka Pipeline were funded from
3 annual contributions to the renewals reserve.
4
5 The renewal of major assets. There are some major
6 assets which I do not believe would ever be replaced, such
7 as Stephens Creek or Umberumberka Reservoir, and they're
8 nearing the end of their useful lives mainly due to
9 siltation. If major works on those were required just to
10 meet safety requirements then that may be the appropriate
11 time to do a thorough financial assessment and determine
12 whether or not they should be decommissioned and then not
13 included in the asset base.
14
15 My comment on Country Water's approach, given the
16 above - and that's only a sketchy outline on it - it seems
17 to me to be totally inappropriate to base a pricing model
18 on the total asset base with no consideration of what has
19 been paid for or what will need to be replaced in the
20 future. It was suggested in one of the questions that they
21 have taken that into account. We don't know because that
22 report is not available to us and I don't believe it. It
23 is difficult to comment further without access to detailed
24 data.
25
26 Therefore, I believe it would be inappropriate for
27 IPART to endorse the revenue requirement building blocks
28 submitted by Country Energy. It appears to me that that
29 asset base needs a thorough and detailed scrutiny. Even
30 with that, given the relatively large asset base compared
31 with most equivalent towns, I believe that a cash based
32 approach for determining prices would be more appropriate
33 and much more transparent than the one proposed by
34 Country Energy.
35
36 Finally, there is the issue of tariff setting. I have
37 some concerns regarding that. I note that Country Energy
38 has asked basically for the freedom to set whatever tariffs
39 they like once the revenue cap is fixed. They have
40 indicated that the existing structure would remain, but
41 have not indicated any values for the components of that
42 tariff. I have no problem with a two-part tariff with a
43 service charge and a usage charge. I do have a problem
44 with the cut-off point from the lower level of charge to
45 the higher one, I think it is too low, and I have a problem
46 with the magnitude of the upper tariff.
47

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1 The 300 kilolitres that is talked about is the average
2 consumption for a Broken Hill home. I believe that this
3 may include - again, we don't have that information -
4 vacant land, empty houses, and there are many of those, and
5 the many small houses that people would really not like to
6 live in these days. I have based my own assessment on my
7 own experience, plus some detailed information that I have
8 access to, to come up with a reasonable consumption that
9 I believe would be appropriate for a house that you would
10 be able to live in and raise a family in. The figure
11 I came up with as a minimum is 550 kilolitres per year.
12

13 I have calculated water consumption for a normal sized
14 evaporative air cooler - and this is taken from the Braemar
15 design manual - at close to 200 kilolitres per year. The
16 water requirement to just keep alive a small garden is
17 150 kilolitres per year. That is based on material
18 published by the CSIRO. I had to use the table for Mildura
19 because they didn't have Broken Hill included and that's
20 the closest. Add to that normal internal household
21 consumption of about 200 kilolitres and that gives you the
22 550 and I don't believe this is being extravagant in any
23 way.
24

25 Any potential inclining block tariff should have the
26 cut-off point of the lower block set at least
27 550 kilolitres. I believe the price of the upper block
28 should be no more than something like 50 per cent more than
29 the lower block, not many times the lower block. The
30 impact of that type of tariff structure is probably the
31 result of the tremendous push by all sectors of government
32 and their agencies to conserve water in towns and cities,
33 even though we only use 8 per cent of the total water
34 consumed and by keeping the focus on people in towns and
35 cities, it keeps all of us occupied and it keeps the heat
36 off the irrigators. They have a very, very powerful lobby
37 with governments indeed.
38

39 In conclusion, I believe it is totally unreasonable to
40 expect people to live here and to use no more water than
41 someone in Sydney. Thank you.
42

43 (Applause)

44
45 THE ACTING CHAIRMAN: Thank you for your detailed
46 and thoughtful comments. That is much appreciated.
47

1 MR TAPLIN: My name is John Taplin. I am a resident of
2 Silverton. I would just like to add to what Helen said
3 about our pipelines, the length of them and so forth, and
4 the financial hardship that this can place on you.
5

6 I have in my pocket here a copy of my last quarterly
7 bill. My pipeline is 1,800 metres and considering the
8 dryness of the land at the moment, I got a leak and all the
9 water went into the ground before it came up. When it was
10 brought to my attention I fixed the water pipe myself,
11 which was the smart thing to do. I ended up with a bill
12 for \$2,700. When we phoned the Water Board up we were
13 told if we used a plumber I'd possibly get what they call an
14 evening system put into place. If I'd phoned for a plumber
15 I believe I would still be waiting because you just can't
16 get a plumber out there. It's unreasonable. That's all
17 I wanted to say. Thank you.
18

19 (Applause)

20
21 THE ACTING CHAIRMAN: Thank you. Who would like to
22 go next?
23

24 MR WALKER: My name is Graham Walker. Until recently,
25 18 months ago, I had been a resident in Broken Hill for a
26 period of some 13 years, five years of which I worked as
27 superintendent of headworks for the old Broken Hill
28 Water Board and for a short time for Australian Inland.
29

30 I would like to endorse a lot of what Roger said. In
31 my experience of knowing Roger Edwards, he is very
32 thorough with his background stuff and I think the Tribunal
33 should pay a lot of attention to the sort of approach that he
34 has outlined.
35

36 On the other hand, I would like to focus on the
37 nonsense which is the current approach to water supply in
38 Broken Hill. It is divided into three areas. One is
39 government policy and I accept that
40 Country Energy/Country Water can't do a lot about decrees
41 from Sydney about saving water, but the whole idea of
42 saving water in this area is a nonsense and this goes to
43 what Tom Kennedy was trying to say a bit earlier. The
44 water that needs to be held in Lake Wetherill and other
45 lakes down there, if that's chosen to be the case, we use
46 something like about 2 or 3 per cent of that here in the
47 town. The rest is quarantined and not available for other

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1 purposes other than for evaporation. It is not allowed for
2 South Australia's use until another inflow is on its way.

3
4 I have a lot here. Could I ask the Chair whether it's
5 possible for individuals to still put in a submission in
6 the next couple of days?

7
8 THE ACTING CHAIRMAN: I think if you put in something
9 really quickly, we'd still consider it.

10
11 MR WALKER: I will keep it short for that reason. Residents
12 have been told to remove lawns, gardens, et cetera. It is a
13 high cost for residents to do that. They've said there's no
14 water. These arguments which are put to residents are
15 absolute nonsense because we're a closed circuit.

16 Once the water gets into the Menindee Lakes system
17 and is pumped through to Broken Hill or
18 quarantined for use for Broken Hill, any of the savings
19 that we make here can't be used elsewhere: it just
20 evaporates. It is nonsense. All the arguments put by
21 council and by other members here today are right on the
22 money in saying what is the point of these savings.

23
24 We have had schemes put up by Country Water - again,
25 government policy presumably - to put in rainwater tanks,
26 to put in tar and cement all around the area instead of
27 gardens and greenery, and that has created problems for
28 lead-dust issues and general dust issues which we're
29 experiencing lately. A lot of people in Broken Hill were
30 very happy to see that our main dust storm of the season
31 went on through to Sydney.

32
33 (Applause)

34
35 As has been outlined by many others here today - and
36 I won't dwell on it - this is a low socio-economic zone and
37 all this pie-in-the-sky save water nonsense is a high
38 relative outgoing for pensioners and consumers here. That
39 is beyond what Country Water could do, but it's our money
40 that goes into those campaigns to tell us to use less
41 water. It achieves nothing. If you had a different water
42 system it might be different. If you save water and it can
43 be put to other uses, fine.

44
45 On the assets, which has been touched on by others
46 here, I can't help but fully endorse what Roger is saying
47 that there is a smoke-and-mirrors deal going on here in the

1 presentation to the Tribunal by the assets base and the
2 need to replace a lot of those. If a proper review was
3 done, as Roger Edwards said, we would not be worrying about
4 Stephens Creek, it's history, and it should have been
5 pensioned off many years ago. Umberumberka is 60 per cent
6 silt. The signs still say it holds X-amount of water. It
7 doesn't hold that amount of water because the silt is in
8 there. It stops it from holding that. Stephens Creek is
9 the same.

10
11 Rather than get on to those macro issues, it seems
12 that the organisation - and it changes its name every now
13 and again: Broken Hill Water Board; it's certainly been
14 Australian Inland - ended up with management that thought
15 water management is easy and when the last crisis hit us
16 here in 2002-2003, they raced around and spent
17 multi-million dollars on small projects that were a total
18 waste. That has continued under Country Water.

19
20 A case in point, high-tech, first of the size in
21 Australia, written up in the Sydney Morning Herald, was
22 this shade cloth over the Stephens Creek Reservoir. They
23 have gone ahead and spent huge amounts of money there and
24 it's in limbo at the moment as to whether they're going to
25 finish the project or not because it's too hard,
26 contractors are not available or it went bust, whatever the
27 reason was.

28
29 The reason that the water is pumped from the
30 Menindee Lakes system into Stephens Creek Reservoir is
31 because there's a problem identified at various times with
32 our water having a bug, which is pretty fatal if you get it
33 up your nose the wrong way.

34
35 To pump it into Stephens Creek Reservoir or a small
36 part of the holding pond there is for a cooling effect.
37 That cooling effect is done by evaporation. It's known
38 that it's a sunk cost, the loss of water that goes on
39 there. Then evaporation cools the water, brings it through
40 and makes it usable in the city, rather than being 40-odd
41 degrees in the pipeline. It's probably a bit hotter out
42 there, if our temperature keeps up.

43
44 It cost \$1 million or \$2 million to put a cover over
45 the reservoir. That's going to stop it evaporating.
46 That's going to cool it. It's totally redundant. You
47 can't put water into Stephens Creek Reservoir. You might

1 as well pump it straight through here and have hot water.
2
3 These nonsense ideas display that Country Water do not
4 have a clue what they're doing as far as managing the
5 assets here. The assets are complex, they're difficult,
6 they're aged, yes, but there needs some sanity of
7 application in terms of where the money is spent. It's our
8 money that's going into those nonsense programs. There
9 have been a lot of others here that Country Water has done.
10
11 The other cost that is a major cost and they want us
12 to pay for it is that we were consulted under
13 Australian Inland on a community basis and the Silverton
14 representation went through that and that was spot on the
15 money with what was promised and they said, "Broken Hill,
16 you're going to need a new water treatment plant and it's
17 going to cost you \$14 million." Today we're told it's
18 \$41 million. Someone is dyslexic. Someone is really
19 dyslexic. I know the reason why it's gone up to
20 \$41 million and that is because they are putting chlorine
21 in the water, which they were told not to do by a
22 ministerial inquiry in 2003. You don't put chlorine into
23 the water because it creates all sorts of carcinogenic
24 problems within the water. They've done nothing about it.
25
26 We are still getting water. They maintain they were
27 quoting selected parameters from the NHMRC water quality
28 guidelines that it does meet the guidelines. It does not
29 meet the guidelines. I will cover that in the submission
30 in a couple of days time.
31
32 With the water here at the moment you really do have
33 to take it straight out of the tap, smell it, taste it and
34 see whether you'll drink it. Most people will not do that
35 because it does not meet the standard of the NHMRC
36 guidelines for taste and odour.
37
38 Why are we getting a \$41 million water treatment
39 plant? Because they haven't taken direct action to stop
40 putting chlorine in the water and when the water gets to
41 Broken Hill, it's extremely difficult to treat as a result.
42 Hence, you need a \$41 million water treatment plant.
43
44 I still don't think a \$41 million treatment plant is
45 going to deal with it if they're going to continue to dose
46 the water with chlorine. They are making their operational
47 costs extremely expensive by not understanding what they're

1 doing and not understanding some much cheaper options.
2
3 Just recapping, there are three options. There is the
4 government policy which is imposed on Country Water which
5 has not a lot to do with their issues. They should be
6 arguing much more against that. There is the asset base
7 that Roger touched on that should be pensioned off and not
8 included in the base at all, then there's the high cost of
9 treating water, which is totally unnecessary, and there are
10 these silly Mickey Mouse projects. Thank you.
11
12 (Applause)
13
14 MS CLARK: Thank you. My name is Maureen Clark. I
15 would just like to say that people here would probably feel a
16 little more secure if they knew that we were not going to
17 be subsidising Perilya, the mining company, or indeed that
18 we were not going to have a decrease in our subsidy from
19 the State Government. In fact, we would be hoping that we
20 would get an increase.
21
22 Peter Black asked why should the taxpayers of
23 New South Wales subsidise Broken Hill and he said that it
24 was because we were different. We didn't have a river.
25 It's more than that. It's why we, the taxpayers in Broken
26 Hill, are providing for freeways and railroad tracks in
27 Sydney. Why should we do that? (Applause) It is sharing
28 the burden and that's what taxpayers do and that's what
29 ratepayers do as well and when we consider the amounts of
30 royalties that have been taken out of Broken Hill, I don't
31 think we could be denied a subsidy from the
32 State Government and in fact we have every reason to expect
33 that we would have a sizeable subsidy from the
34 State Government.
35
36 Another point I would like to make too - and it is one
37 that I think is shared by a lot of people here - is the
38 failure of privatisation. We should never have embraced
39 the idea that water or any utilities should be privatised.
40 We only have to look at what has happened in
41 South Australia with ECSA and the failure of their
42 air-conditioners and their lights, et cetera, down there
43 with their frequent blackouts to know that that would be
44 something we would actively resist. Thank you.
45
46 (Applause)
47

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1 MR DES KENNEDY: My name is Des Kennedy. A lot of
2 people might not understand this picture, but the last speaker
3 said that in Broken Hill years ago, in the time of our
4 forefathers, when the mines stopped New South Wales and
5 Australia stopped. That's how much royalties came out of
6 Broken Hill. All the union people will know that. We've
7 been supporting this country for many years. You've only
8 got to drive outside of Broken Hill and there's nothing
9 alive now: there's nothing. That's what Broken Hill was
10 like when our forefathers came here.

11
12 We need a little bit of leniency and a bit of
13 compassion. The Government should support us in water
14 because this is the only city until you get to Mildura
15 that's got anything around this area. Once Broken Hill
16 gets left in the lurch to pay for everything they've got
17 with a few people, the pensioners, the people that are
18 here, Broken Hill will cease to be a city. Thank you.

19
20 (Applause)

21
22 THE ACTING CHAIRMAN: Are there any other comments?

23
24 MR KELLY: My name is Mark Kelly, Planning and
25 Infrastructure, Southern Cross Care, Broken Hill.
26 In regards to subsidising the mines, I asked a question
27 earlier were there meters on the mine lease? I know for a
28 fact that there aren't meters on the mine lease. There
29 might be one meter. I think the State Government should
30 subsidise the mines for their royalties back to the mines
31 to stop us as ratepayers subsidising the mines.

32
33 I asked a question earlier and he said yes, they use
34 about 25 per cent of water in Broken Hill. That
35 25 per cent of filtered water goes down the mine and the
36 meters are reversed for when the mines pump the water back
37 up and so it looks like they've got about 3 per cent usage
38 of water. I'm not sure of the real figures. It might even
39 be the reverse. We shouldn't be paying the mines because
40 they're pumping water up.

41
42 The State Government, with their royalties and all
43 that sort of thing should be paying back some money to the
44 mining system instead of us subsidising the mines.
45 25 per cent of filtered water to the mines is going down
46 the mine. They put on sprays. They hose loader bays down
47 for two hours at a time. They empty the tanks on the top

1 of the hill. It's just filtered water pouring in. In the
2 command centre a light goes on and they ring up someone
3 down on one of the levels and say, "You'd better stop
4 watering, boys." We're subsidising that and that's
5 something they could look at.

6
7 (Applause)

8
9 THE ACTING CHAIRMAN: Any there any other questions or
10 comments?

11
12 UNIDENTIFIED SPEAKER: The State Government have
13 decided that 25 per cent of the water that goes to the mines
14 only gets 20 per cent of the revenue. To me Country Water is
15 owned by the state. Why aren't they deciding that we can
16 pay the same percentage as they're prepared to take from
17 the mines?

18
19 MR COX: Thank you.

20
21 MR WATSON: Somebody was going to tell me where they
22 were going to get the water for the 600 foundations for the
23 turbines.

24
25 THE ACTING CHAIRMAN: Can anyone answer that?

26
27 MR NADGE: We have had detailed discussions. The overview
28 that we've had with them about their water usage - I can't
29 remember the figures off the top of my head - is that the
30 amounts aren't going to have a significant impact on
31 Umberumberka. The Silverton Wind Farm is a commercial
32 customer and they have a connection like any commercial
33 customer, so they will be charged for the water they use.
34 There will be expectations around how they use that water
35 in an efficient manner going forward as well.

36
37 MR WATSON: Are they going to get it out of
38 Umberumberka, are they? They're going to build all the
39 foundations and everything.

40
41 MR NADGE: Yes, that's where they're getting it - from the
42 pipeline, yes.

43
44 MR WATSON: 240 cubic metres equates to 41,000 litres of
45 water, if they do a full pack, and that's coming from
46 Umberumberka, isn't it?

47

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1 MR NADGE: Yes, that's right.

2

3 THE ACTING CHAIRMAN: Any there any more questions or
4 comments? No? If that's the case, I think we'll close the
5 proceedings at this point. First of all, I want to thank
6 you very much for coming and enduring this room. This is
7 probably not a particularly comfortable room. We
8 appreciate the effort that you have made to give us your
9 views. I think it has been a very interesting and
10 informative public hearing for us.

11

12 Going forward, I think a number of issues have been
13 raised today about the necessity of some of the costs that
14 Country Water are claiming. Obviously, we will need to
15 persuade ourselves that those costs are required to be
16 incurred.

17

18 However, there is also a question I think of who
19 should be paying for the necessary costs of providing
20 Broken Hill's water and sewerage services. We certainly
21 don't want the residents to pay more than their fair share,
22 but I think also there's a question of cost sharing between
23 the residents themselves to pay and what's reasonable for
24 the shareholders of Country Water and the government and
25 taxpayers generally to pay and we have to turn our minds to
26 that, given the particular circumstances that exist in
27 Broken Hill which have been well described this morning.

28

29 Thank you very much for coming and for your
30 interesting comments and the spirit in which this morning
31 has been held. I think we have learned a great deal in the
32 process. Once again, thank you very much.

33

34 (Applause)

35

36 AT 11.33AM THE TRIBUNAL ADJOURNED ACCORDINGLY

37

38

39

40

41

42

43

44

45

46

47